

BC TELECOM INC.**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

The Second Annual General Meeting (the "Meeting") of holders of common shares (the "Common Shares") of BC TELECOM Inc. (the "Corporation") will be held on Wednesday, April 26, 1995, at 10:00 a.m. (Vancouver time) and 1:00 p.m. (Toronto time) concurrently in the auditorium at the head office of the Corporation, 3777 Kingsway, Burnaby, British Columbia; at the Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario for the purposes of:

1. receiving the 1994 Audited Financial Statements of BC TELECOM Inc., including the Consolidated Balance Sheet, the related Consolidated Statements of Earnings and Changes in Financial Position and Auditors' Report thereon;
2. electing directors for the ensuing year;
3. appointing auditors for the ensuing year;
4. to consider and, if thought fit, approve the BC TELECOM Inc. Share Option Plan; and
5. considering such other matters as may properly come before the Meeting or any adjournment thereof.

The Directors of the Corporation have previously fixed and advertised the close of business on March 13, 1995 as the record date for the determination of shareholders entitled to receive this notice.

Your vote is important regardless of the number of Common Shares you own. Shareholders who are unable to attend the Meeting in person are asked to sign, date and return the enclosed form of proxy relating to the Common Shares held by them in the postpaid envelope provided for that purpose.

This meeting is being held concurrently at the three locations set forth in this Notice by two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia, a copy of which is attached as Schedule "A".

To be used at the Meeting, a proxy must be deposited at the office of our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at any time up to 10:00 a.m. (Vancouver time) on April 24, 1995 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting) or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or the day of the adjournment of the Meeting.

DATED at Burnaby, British Columbia this 22nd day of February, 1995.

By order of the Board

Dorothy E. Byrne
Corporate Secretary

PROXY INFORMATION CIRCULAR

GENERAL INFORMATION

This Proxy Information Circular (the "Circular") is furnished in connection with the solicitation of proxies by and on behalf of the management of BC TELECOM Inc. (the "Corporation") and its Board of Directors. The accompanying form of proxy is for use at the meeting of the holders (the "Shareholders") of the common shares (the "Common Shares") of the Corporation to be held on April 26, 1995 (the "Meeting") and at any adjournment thereof for the purposes set forth in the accompanying Notice of Annual General Meeting.

The Meeting is being held concurrently in three locations: at the auditorium, 3777 Kingsway, Burnaby, British Columbia; at the Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario by way of two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia ("Court"), a copy of which is attached as Schedule "A" (the "Court Order"). Reference is made to the Court Order for all of the terms set by the Court for the holding of the Meeting.

It is anticipated that this Circular and the accompanying Proxy Form will be mailed to the Shareholders on or about March 24, 1995. Unless otherwise stated, information contained in this Circular is given as at February 22, 1995. The head and registered office of the Corporation is located at 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7 and its telephone number is (604) 432-2413 in the Vancouver area or outside Canada, and/or 1-800-663-9405 elsewhere in Canada.

This solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Corporation (See "Solicitation of Proxies").

VOTING SHARES

On February 22, 1995, there were 119,003,310 Common Shares outstanding. The Common Shares entitle the holders of record on March 13, 1995 to one vote per share at the Meeting. On February 22, 1995, the Anglo-Canadian Telephone Company ("Anglo-Canadian") owned, directly and indirectly, 60,205,991 Common Shares representing approximately 50.6% of the issued and outstanding Common Shares. Anglo-Canadian is beneficially owned and controlled as to 100% of its common shares by GTE of Stamford, Connecticut. There are no other Shareholders, known to the Corporation, who own in excess of 10% of the issued and outstanding Common Shares with the exception of The Canadian Depository for Securities Limited, which may hold in excess of 10% of such shares for the benefit of its participants.

RESTRICTIONS ON ISSUE, TRANSFER AND VOTING OF COMMON SHARES

The "Canadian Telecommunications Common Carrier Ownership and Control Regulations" (the "Regulations") under the *Telecommunications Act* (the "Act") prescribe, inter alia, minimum levels of Canadian ownership and control for facilities-based telecommunications common carriers operating in Canada and for their holding corporations, such as the Corporation, to be maintained in order for those carriers to be eligible to operate under the Act. In addition, the Regulations prescribe rules which entitle the Board of Directors of a holding corporation to prohibit the issue, transfer or voting of shares of that corporation to or by any person who is not a Canadian, as defined in the Act.

Pursuant to the Regulations, in order for subsidiaries of the Corporation to retain their eligibility to operate under the Act, the Corporation is required to ensure that the percentage of the common shares of the Corporation owned by Canadians has not decreased, for a period of more than one year, by more than 5% from the percentage owned by Canadians at June 22, 1987 (the "Restriction"). Under the Regulations,

the Board of Directors of the Corporation may refuse to allot or issue, and may refuse to register a transfer of, or allow the exercise of voting rights attached to, common shares in circumstances that would cause the Corporation to be in violation of the Restriction. The Board of Directors can also require the sale of any common shares held in excess of the Restriction. These Regulations permit the Board of Directors of the Corporation to request affidavits or declarations as to ownership, as may be required.

APPOINTMENT OF PROXY AND DISCRETIONARY AUTHORITY

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a Shareholder, you should complete, execute and return the enclosed Proxy Form. By doing so, you can participate in the Meeting through the person or persons named on the Proxy Form. Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. If you do not indicate a preference, the Common Shares represented by the enclosed Proxy Form, if the same are executed in favour of the management nominees named in the Proxy Form and deposited as provided in the Notice of Meeting, will be voted for the election as directors of the nominees named herein, in favour of the appointment of auditors, to approve the BC TELECOM Inc. Share Option Plan and for all other matters identified in such Notice of Meeting.

Proxies are counted and tabulated by Montreal Trust Company, the transfer agent of the Corporation, in such a manner as to preserve the confidentiality of individual shareholder votes, except: (a) as necessary to meet the applicable legal requirements; (b) in the event of a proxy contest; or (c) in the event a shareholder has made a written comment on the Proxy Form.

DISCRETIONARY AUTHORITY OF PROXY

The enclosed Proxy Form confers discretionary authority upon the proxy nominees with respect to amendments or variations to the matters identified in the Notice of Meeting and other matters which may properly come before the Meeting.

The Board of Directors and management do not know of any such matter which may be presented for consideration at the meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the management nominees named in the appropriate Proxy Form.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the management nominees named in the accompanying Proxy Form have been appointed to act, will be voted or withheld from voting in accordance with the specification of the Shareholder signing the appropriate Proxy Form. If no such specification is made, then the Common Shares will be voted for the election of directors of the nominees named herein, in favour of the appointment of auditors, to approve the BC TELECOM Inc. Share Option Plan and for all other matters identified in the Notice of Meeting.

To be effective for use at the Meeting, proxies must be received by our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at or before 10:00 a.m. (Vancouver time) on April 24, 1995 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting), or with the Chairman of the Meeting prior to commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only Shareholders of record at the close of business on March 13, 1995 of Common Shares will be entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof. In certain circumstances a person who has acquired Common Shares subsequent to March 13, 1995 may be entitled to vote the Common Shares upon making a written request to that effect not later

than 10 days preceding the date of the meeting, to the Corporate Secretary of the Corporation at the registered office of BC TELECOM Inc., 19th Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7 and establishing that such Common Shares are owned by such person.

With respect to each matter properly brought before the Meeting, each Shareholder shall be entitled to one vote for each Common Share registered in the name of such Shareholder.

A Shareholder has the right to appoint a person other than the management nominees designated on the appropriate accompanying Proxy Form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing another Proxy Form. Proxy Forms which appoint persons other than the management nominees whose names are printed on the Proxy Form should be submitted to the Corporation and the persons so appointed should be notified. The person acting as proxy need not be a Shareholder.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the person named in a Proxy Form has been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing such Proxy Form. If no such specification is made, then the Common Shares may be voted in accordance with the best judgment of the person named in the Proxy Form. Furthermore, the person named in the Proxy Form will have discretionary authority with respect to any amendments to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the person named in such Proxy Form.

REVOCATION OF PROXY

Proxies given by Shareholders may be revoked at any time prior to their use by instrument in writing executed by the Shareholder or by his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, at any time up to and including 4:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting in Burnaby, British Columbia, on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, personal attendance at the Meeting.

If the instrument of revocation is deposited with the Chairman in Burnaby, British Columbia, on the date of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such Proxy.

SOLICITATION OF PROXIES

The cost of this solicitation of proxies will be borne by the Corporation. The Corporation will reimburse brokers, custodians, nominees and other fiduciaries for the proper charges and expenses incurred in forwarding this Circular and related materials to beneficial owners of Common Shares. In addition to solicitation by mail, officers, directors and regular employees of BC TEL may, without additional compensation, solicit proxies personally by telephone.

ANNUAL MEETING BUSINESS

ELECTION OF DIRECTORS

The Articles of the Corporation provide that the Board of Directors shall consist of not less than three nor more than eighteen members, each of whom shall be elected at an annual general meeting for a term of one year. The Directors have, pursuant to the by-laws, established that the number of directors be eleven. The following table sets out the information respecting all persons proposed to be nominated for election as directors. All of the persons named are currently directors of the Corporation except Thomas W. White.

None of the persons named in this table holds any shares of Anglo-Canadian or GTE other than Gordon F. MacFarlane, Kent B. Foster and Thomas W. White who own, respectively, 1,716, 44,887, and 7,944 common shares of GTE. The number of shares beneficially owned, or over which control or direction is exercised, not being within the knowledge of the Corporation, has been supplied by the individual concerned.

Name and Office Presently Held with BC TELECOM Inc. (2)	Present Principal Occupation	Date Became Director	Common Shares Beneficially Owned or Controlled
Brian Albert Canfield Chairman and Chief Executive Officer ⁽³⁾	Chairman and Chief Executive Officer of BC TELECOM Inc. and BC TEL	May 1, 1993	19,152
George Neldon (Mel) Cooper, C.M., O.B.C.	President, Seacoast Communications Group Inc. (Broadcasting)	May 1, 1993	1,651
Kent Benard Foster ⁽⁴⁾	Vice-Chairman, GTE Corporation and President, GTE Telephone Operations Group (Consolidated group of telecommunications companies)	May 1, 1993	2,002
Mary Rendina Kathleen Hamilton, Q.C., O.B.C.	Corporate Director	May 1, 1993	400
Robert Horne Lee, O.B.C. ⁽¹⁾	President, Prospero Group of Companies (Commercial real estate sales, investment and property management)	May 1, 1993	1,939
Gordon Frederick MacFarlane, O.B.C.	Corporate Director	May 1, 1993	11,908
Victor Frederick MacLean ⁽¹⁾	Corporate Director	May 1, 1993	2,500
John Wilson Pitts	President and Chief Executive Officer, MacDonald Dettwiler & Associates Ltd. (Designer/Manufacturer – high technology)	May 1, 1993	2,000
Barbara Joyce Rae, C.M., O.B.C. ⁽¹⁾	Chairman, ADIA Canada Ltd. (Office automation and personnel services)	May 1, 1993	961
Thomas William White ⁽⁴⁾⁽⁵⁾	Executive Vice-President, Network Operations, GTE Telephone Operations Group (Consolidated group of telecommunications companies)	–	–
William Robert Wyman	Chairman, Finning Ltd. (Heavy equipment – sales and service)	May 1, 1993	2,220

Notes:

(1) A member of the Audit Committee.

(2) All of the directors of the Corporation are also directors of BC TEL.

(3) Also a director and officer of one or more subsidiaries of the Corporation.

(4) Also a director of a number of subsidiaries of GTE.

(5) Thomas W. White has held various senior executive positions with GTE Telephone Operations Group.

Management does not expect that any of the nominees will be unable to serve as a director but, in that event, discretionary authority may be exercised to vote for a substitute.

EXECUTIVE COMPENSATION

1. SUMMARY COMPENSATION TABLE

The following table sets forth the summary of compensation of the Chief Executive Officer and the four named executive officers of the Corporation and its subsidiaries for the year ended December 31, 1994.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$)(3)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Securities Under Options Granted (#)	
BRIAN A. CANFIELD CHAIRMAN AND CHIEF EXECUTIVE OFFICER BC TELECOM Inc. and BC TEL	1994	450,000	294,784		24,400	10,081.43
	1993	450,000	201,370			
	1992	420,000				
LEO J. DOOLING VICE-PRESIDENT – FINANCE AND ADMINISTRATION, BC TEL ⁽⁴⁾	1994	225,000	129,160		11,100	
	1993	200,000	86,145			
	1992	200,000				
HAROLD R. ENS VICE-PRESIDENT – ON SPECIAL ASSIGNMENT	1994	210,000	124,160		9,900	4,674.60
	1993	200,000	88,140			
	1992	180,000	8,818			
E. LYNN PATTERSON PRESIDENT – SALES & SERVICE, BC TEL ⁽⁵⁾	1994	275,000	117,858		16,300	20,189.94
	1993	250,000	119,280			
	1992	220,000				
FARES F. SALLOUM PRESIDENT – BC TEL SERVICES Inc. ⁽⁶⁾	1994	225,000	155,250		11,100	4,203.60
	1993	180,000	82,240			
	1992	160,000				

Notes:

- (1) 1994 and 1993 bonus amounts paid under the Variable Incentive Plan in recognition of the achievement by executive officers of corporate and individual objectives were paid in part in December of the year in which they were earned and the balance was paid in February of the following year. No bonus amounts were paid under the Variable Incentive Plan in 1992, given the Corporation's financial results. The bonus amount received by Harold Ens in 1992 was paid pursuant to the Management Variable Compensation Plan (the "MVCP") for achievement of 1991 objectives under the MVCP, prorated to reflect his participation to August 31, 1991. Executive officers do not participate in the MVCP and it was on September 1, 1991 that Mr. Ens became an executive officer of BC TEL.
- (2) Perquisites and other personal benefits do not exceed the lesser of \$50,000.00 and 10 percent of the total of the annual salary and bonus of the named executive officers for the financial year and therefore are not disclosed.
- (3) This figure represents the aggregate of payment in lieu of earned vacation in 1994 and employer contribution under the Employee Share Purchase Plan (the "ESPP") to which all employees of the BC TELECOM group may subscribe. Under the ESPP, the employer contributes \$1.00 for every \$4.00 paid by the employee towards the market purchase of BC TELECOM Inc. common shares.
- (4) Leo Dooling is also Vice-President and Chief Financial Officer, BC TELECOM Inc.
- (5) Lynn Patterson is also Vice-President of Sales & Service, BC TELECOM Inc.
- (6) Fares Salloum is also Vice-President of Emerging Business, BC TELECOM Inc.

2. LONG-TERM INCENTIVE COMPENSATION

BC TELECOM Inc. and its subsidiaries provide long-term incentive compensation to key employees, including executive officers, in the form of the Long-Term Incentive Share Option Plan (the "LISOP") whereby options to purchase common shares of BC TELECOM Inc. are granted.

The following table sets forth individual grants of options under the LISOP during the financial year ended December 31, 1994 to the named executive officers.

OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

Name	Securities Under Options Granted (#) (1)	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price (\$/Security) (2)	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
BRIAN A. CANFIELD	24,400	8.31	25.25	25.25	February 22, 2004
LEO J. DOOLING	11,100	3.78	25.25	25.25	February 22, 2004
HAROLD R. ENS	9,900	3.37	25.25	25.25	February 22, 2004
E. LYNN PATTERSON	16,300	5.55	25.25	25.25	February 22, 2004
FARES F. SALLOUM	11,100	3.78	25.25	25.25	February 22, 2004

Notes:

- (1) The first 50% of the options became exercisable on February 22, 1995, the next 25% will become exercisable on February 22, 1996 and the final 25% on February 22, 1997.
- (2) The exercise price is the market value on the last trading day prior to the date of grant.

The following table sets forth each exercise of options during the financial year ended December 31, 1994 by the named executive officers.

AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at FY-End (#)		Value of Unexercised in-the-Money Options at FY-End \$(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
BRIAN A. CANFIELD	16,300	144,662.50	82,075	62,225	305,903.13	128,684.38
LEO J. DOOLING	9,300	52,312.50	17,450	24,050	63,481.25	41,168.75
HAROLD R. ENS			21,575	22,325	83,328.13	41,684.38
E. LYNN PATTERSON	24,800	153,062.50	12,800	34,900	51,200.00	59,062.50
FARES F. SALLOUM	5,400	38,475.00	13,775	21,825	52,278.13	32,684.38

Notes:

- (1) The value of in-the-Money Options at the Financial Year-End was calculated based on the market value on the last trading day of the financial year, less the exercise price of those in-the-Money Options.

3. DEFINED BENEFIT PLANS

Executive Officers of the Company participate in the contributory Pension Plan for Management and Exempt Employees ("Management Plan") and the non-contributory Supplemental Income Plan ("S.I.P.") for Executives (together called the "Plans"). The S.I.P. supplements the Management Plan ensuring a total benefit at retirement determined as 2% of a person's average final earnings times the total number of years of credited service to a maximum of 35. Average final earnings are defined as the average annual earnings during the 36 consecutive months during which the average annual earnings were highest. The following table shows the total of the annual retirement benefits payable from the Plans assuming retirement at age 60 or over:

PENSION PLAN TABLE

Remuneration \$(1)	Years of Credited Service				
	15	20	25	30	35
175,000	\$ 52,500	\$ 70,000	\$ 87,500	\$105,000	\$122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000
450,000	135,000	180,000	225,000	270,000	315,000
500,000	150,000	200,000	250,000	300,000	350,000
550,000	165,000	220,000	275,000	330,000	385,000

Notes:

- (1) The compensation (i.e. annual earnings) covered by the Plans for each of the named executive officers is their respective Salary shown in the Summary Compensation Table.
- (2) The benefit under the Plans is payable for a member's lifetime with a 60% benefit payable to a surviving spouse. The benefit payable under the Plans is not reduced by integration with the Canada Pension Plan or Old Age Security benefits.

The years of credited service as of December 31, 1994 for pension plan purposes for the named executive officers are as follows: Brian A. Canfield, 38.5 years; Leo J. Dooling, 28.6 years; Harold R. Ens, 36.9 years; E. Lynn Patterson, 30.7 years; and Fares F. Salloum, 21.6 years.

4. COMPOSITION OF THE COMPENSATION COMMITTEE

The following individuals served as members of the Corporation's Human Resources and Compensation Committee (the "Committee") during 1994:

W. Robert Wyman – Chair

Kent B. Foster

James L. Johnson

Gordon F. MacFarlane – former Chairman and Chief Executive Officer, BC TEL.

John W. Pitts

5. REPORT ON EXECUTIVE COMPENSATION

BC TELECOM's executive compensation program is administered by the Human Resources and Compensation Committee (the "Committee") which is composed of five non-employee directors. The Committee met nine times in 1994 to receive information on and determine matters regarding executive compensation, in accordance with policies approved by the Board of Directors. Recommendations for changes to the policies are reviewed on a periodic basis to ensure they remain current, competitive and consistent with the Corporation's overall goals. The terms of reference of the Committee also provide that one of its purposes is to establish a plan of continuity for executive and other key employees of the Corporation and its subsidiaries.

The Committee develops and recommends to the Board for approval the Corporation's executive compensation philosophy and guidelines and the compensation paid to the Chairman and Chief Executive Officer and other executive officers. The Committee oversees the terms of reference of and selection of outside consultants to review executive compensation policies for the Corporation.

Compensation Philosophy and Determination

The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating; will attract, hold and inspire qualified executives; and will encourage performance by executives to enhance the growth and profitability of the Corporation and its subsidiaries. Achievement of these objectives will contribute to an increase in shareholder value. The Committee adopts the use of varied compensation plans to optimize the role of the executive compensation program in balancing the Corporation's short and long term incentives.

The Committee positions its executive compensation (including salaries and incentive awards) at or near (adjusted for size, complexity and performance) the median of the range of compensation levels for comparator companies. The comparator companies provide a wide range of products and services and they experience a variety of different business imperatives, but they demand executive talents similar to those required by BC TELECOM.

External consultants, expert in executive compensation practices, conduct surveys to provide competitive data reflecting comparable knowledge, skills and talents and the compensation paid therefor. Variables such as corporate size and earnings, rates of growth, complexities of management related to the transition from regulated to competitive markets and development of new business opportunities and sources of revenue all have an influence on compensation levels and are analyzed and considered in setting compensation.

The salary ranges and structure including target bonuses are based upon market analyses carried out in early 1994 and reflect competitive practices in the marketplace in which the Corporation competes to attract and retain qualified executives.

Compensation Mix

The Corporation's executive compensation program has three components - salary, the opportunity to earn an annual cash incentive under the Variable Incentive Plan, and a long term incentive share option plan - all of which are designed to incent the executive to increase shareholder value.

With the implementation of a Variable Incentive Plan in 1992, the Committee viewed the cash compensation of executive officers as a combination of base salary and the opportunity to earn compensation

under the Variable Incentive Plan. Since then, no adjustments have been made to the base salary range for executive officers. Any changes to the base salary of specific executive officers during 1994 have been to reflect changes in the officer's area of responsibility or to reflect upward movement within the established base salary range for the officer's specific position.

The Variable Incentive Plan was introduced to provide a link between executive incentive awards and corporate strategic goals. Performance measurements focus on corporate objectives of earnings per share, cost per line, quality of service measurements and on achieving individual objectives such as the promotion of teamwork and improved communications with employees at all levels. A range of percentages of base salary is determined as a maximum incentive for each executive officer. This range was made 5% higher in 1994 in order to align with variable incentive plans of comparator companies. The Committee may, in certain circumstances, apply a multiple to this percentage, depending upon the achievements of corporate performance and the achievement of individual goals.

BC TELECOM's successful financial performance in 1994 resulted in executive short term incentives being paid in accordance with the Variable Incentive Plan formula, under the direction of the Committee for that year.

The Long Term Incentive Share Option Plan ("LISOP") provides an opportunity for the Committee to grant share options taking into consideration the prior year's grant and the current level of cash compensation. The amount of the grant is also determined by the individual executive's role in achieving longer-term results as well as recognizing recent performance towards that objective. The LISOP provides and maintains a direct link between the creation of shareholder value and individual executive performance. Grants of share options made under the LISOP are based on the market price of the common shares of BC TELECOM on the day preceding the date of the grant. Options are granted for terms of up to 10 years. The options granted under LISOP in 1994 are exercisable as to 50% of the shares granted after the first year, 25% of the shares granted after the second year and 25% of the shares granted after the third year.

As part of the overall executive compensation program, the Corporation has established a non-contributory supplementary income plan which provides for an amount to be paid to a retired executive officer as a supplement to the amount payable under the Corporation's contributory pension plan for management. Both these plans are referred to in this report under Section 3 titled "Defined Benefit Plans".

The Chief Executive Officer

The principles for establishing, measuring and determining the compensation of the Chief Executive Officer follow the same philosophy as for the other executives, including named executive officers. The Committee uses a competitive frame of reference which matches the median of the comparators used by the Corporation (at target). This also extends to the compensation mix for the Chief Executive Officer which is targeted to match the distribution found in most of the comparators with respect to the office of chief executive officer.

The salary structure of the Chief Executive Officer is established to be competitive with median target cash compensation levels. When target bonuses are added to the mid-point, the resulting target cash compensation is at the median competitive level.

Report presented by:

W.R. Wyman (Chair) J.L. Johnson

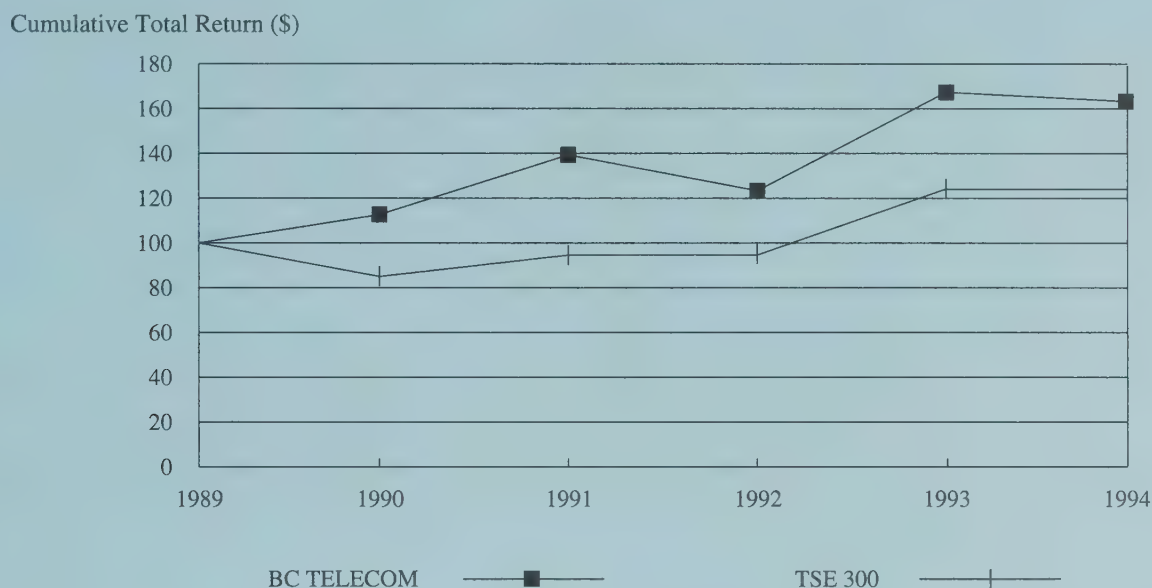
J.W. Pitts

K.B. Foster

G.F. MacFarlane

6. PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return over the past five years ending December 31 for \$100 invested in BC TEL ordinary shares (exchanged for BC TELECOM Inc. common shares effective May 1, 1993) and the TSE 300 Index. Cumulative total shareholder return reflects both the change in share price and the reinvestment of dividends at 100% of the market price on each of the dividend payment dates.



	1989	1990	1991	1992	1993	1994
BC TELECOM	100	112	139	125	169	165
TSE 300	100	85	95	94	125	124

Notes:

- (1) Ordinary shares of British Columbia Telephone Company were exchanged for common shares of BC TELECOM Inc. on a one-for-one basis effective May 1, 1993, as part of the arrangement between the Corporation and BC TEL, pursuant to which all holders of ordinary shares of BC TEL became shareholders of the Corporation.
- (2) Had dividends on the ordinary shares of BC TEL to April 30, 1993 and the common shares of BC TELECOM Inc. thereafter been reinvested through their respective Dividend Reinvestment Plans at 95% of the market price, the value of the \$100 invested on December 31, 1989 would have grown to \$167 by December 31, 1994.

7. COMPENSATION OF DIRECTORS

The following table describes the arrangements under which directors of the Corporation who were not employees were compensated during the year ended December 31, 1994.

BOARD	1st QUARTER (\$)	2nd, 3rd and 4th QUARTERS (\$)
Members' Quarterly Fee	3,000 per quarter	3,500 per quarter
Members' Meeting Fee	800 per meeting	1,000 per meeting
Chairman's Meeting Fee	1,200 per meeting	1,200 per meeting
COMMITTEES		
Members' Quarterly Fee	—	500 per quarter
Members' Meeting Fee	800 per meeting	1,000 per meeting
Chairman's Quarterly Fee	—	1,000 per quarter
Chairman's Meeting Fee	1,200 per meeting	1,000 per meeting

All directors of the Corporation were also directors of BC TEL and the foregoing fees were paid as to 50% by each corporation. Directors also received reimbursement for out-of-pocket expenses.

No fees were paid to the Chairman of the Board, as the by-laws provide that employees are not paid director's fees.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Corporation, together with all affiliates of GTE, has directors and officers liability insurance. The Corporation has a total of \$125 million of coverage for both directors and officers as a group. The Corporation through its by-laws, indemnifies all directors and officers and is liable in respect of directors and officers for \$1 million deductible per claim payable under such insurance. Premium payments totalling \$124,800 were made by the Corporation in the financial year ended December 31, 1994 covering the twelve month period from July 1, 1994 to June 30, 1995.

APPOINTMENT OF AUDITORS

Arthur Andersen & Co., Chartered Accountants, of 1177 West Hastings Street, Vancouver, British Columbia, will be nominated for appointment as auditors of the Corporation to hold office until the close of the next annual general meeting. Such auditors were appointed auditors of the Corporation at the first Annual Meeting on May 25, 1994 and were first appointed auditors of BC TEL on March 14, 1968.

Representatives of Arthur Andersen & Co. are expected to be present at the Meeting and may make any statement or answer any questions.

BC TELECOM INC. SHARE OPTION PLAN

On February 22, 1995, the Board of Directors approved, subject to shareholder and regulatory approvals, the BC TELECOM Inc. Share Option Plan (the "Plan"). The Plan will replace the Long-Term Incentive Share Option Plan ("LISOP"), which will be discontinued in regard to the granting of any further options after February 23, 1995. The following is a summary of the Plan which highlights the key features and provisions. A full copy of the Plan is available to any Shareholder by writing to the Corporate Secretary of the Corporation, 21st Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

Objectives of the Plan

The Human Resources and Compensation Committee (the "Committee") of the Board together with outside, independent compensation consultants formulated the Plan to accomplish the following objectives:

- Align the interests of key management employees and the directors with those of the shareholders;
- Encourage the key management employees to retain their shareholdings in the Corporation; and
- Provide compensation that is competitive with similar positions in the marketplace in order to attract and retain high quality, top performing executives.

Plan Eligibility, Limits and Conditions

Under the Plan, certain designated executive officers and other key employees (collectively "executives") and directors of the Corporation and its subsidiaries will be granted options to purchase Common

Shares. The maximum number of Common Shares of the Corporation that may be issued under the Plan is 2,000,000, representing 1.7% of the issued and outstanding Common Shares of the Corporation as at December 31, 1994. The Plan will be administered by the Committee which will determine the number of Common Shares subject to each option granted under the Plan and the terms of each option including the grant of share appreciation rights and retention options, subject to approval by the Board.

The exercise price of each option granted under the Plan will be the closing price of the Common Shares of the Corporation on The Toronto Stock Exchange on the day before the date of grant of the options.

The Plan provides that the Committee may determine the vesting or exercisability of any option granted, but if not otherwise determined, options will vest and be exercisable as to 33 1/3% on each anniversary date of the date of grant, so that 100% of any option will be exercisable on and after the third anniversary date of the grant date.

The Plan also provides that there may be granted with respect to any option, if determined, in tandem share appreciation rights ("SAR's") and/or retention options.

The SAR's would permit the optionee holding same, to receive the value of the appreciation in the stock option without exercising the option and taking possession of the Common Shares. Upon exercise of a SAR the optionee would be paid, in cash, the difference between the closing price of the Common Shares on The Toronto Stock Exchange on the date of exercise less the option price for each SAR exercised. The SAR's are granted in tandem with the options and may not be exercised unless the option to which they relate is exercisable. Any exercise of a SAR cancels the optionee's right to exercise the option related thereto and vice versa.

A retention option may be granted up to the number of Common Shares provided in the original option. A retention option provides the optionee with an additional option to acquire the same number of Common Shares acquired upon exercise of the initial option, provided that the optionee holds the initial shares acquired on the exercise of that initial option for at least three years. A retention option is exercisable at a price which is the closing price of the Corporation's Common Shares on The Toronto Stock Exchange on the date of exercise of the initial option. A retention option is exercisable on or after three years from the date of exercise of the initial option related thereto, provided the condition of holding of the initial shares has been met. If a SAR is exercised by an optionee, the right to exercise any retention option related thereto will cease.

All options, SAR's and retention options have a term of 10 years from the date of grant of the original option.

The Plan does not require any optionee to exercise any options granted, or to hold for investment stock received under the Plan, although the retention option is designed to encourage the holding of stock received under the Plan.

Options Held

There are now outstanding to employees options to purchase a total of 1,274,328 Common Shares under the LISOP. On February 22, 1995 the Board of Directors approved the granting of options under the Plan to purchase 195,000 Common Shares at \$24.25 per share, together with an equal number of SAR's and retention options. This grant was made subject to receipt of shareholders' approval and all regulatory approvals of the Plan.

Resolution

The Board considers the development and implementation of the Plan as an important factor for the Corporation in designing the compensation package for its executives. The Board considers it important to align the interests of its executives and directors with that of its shareholders and to encourage its executives

to become long-term shareholders of the Corporation. In addition the Plan permits the grant of options to directors, if determined by the Board to be appropriate, to achieve a similar alignment. The terms of the Plan permit flexibility in the granting and determination of the provisions of options and the Board is of the view that the Plan will prove effective for these purposes.

Pursuant to the terms of the Plan, the approval of the Plan by a majority of the votes cast at the Annual Meeting of Shareholders is required. Accordingly, shareholders will be asked to consider and, if thought fit, pass the following resolution:

“THAT the BC TELECOM Inc. Stock Option Plan of the Corporation approved by the Board of Directors on February 22, 1995 be and the same is hereby approved.”

THE BOARD OF DIRECTORS RECOMMEND THAT THE SHAREHOLDERS VOTE “FOR” THE APPROVAL OF THE BC TELECOM INC. SHARE OPTION PLAN.

AVAILABILITY OF DOCUMENTS

The Corporation will provide to any person or company, upon request to the secretary of the Corporation, one copy of any of the following documents:

- (a) the Corporation’s latest Annual Information Form, together with any document, or the pertinent pages of any document, incorporated therein by reference, filed with the applicable securities regulatory authorities;
- (b) the comparative financial statements of the Corporation filed with the applicable securities regulatory authorities for the Corporation’s most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon; Management’s Discussion and Analysis and any interim financial statements of the Corporation filed with the applicable securities regulatory authorities subsequent to the filing of the annual financial statements; and
- (c) the information circular of the Corporation filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Corporation which involved the election of directors.

Copies of the above documents will be provided, upon request to the secretary of the Corporation, free of charge to security holders of the Corporation. The Corporation may require the payment of a reasonable charge from any person or company who is not a security holder of the Corporation, who requests a copy of any such document.

The contents and sending of this proxy information circular were approved by the directors of the Corporation on February 22, 1995.

DOROTHY E. BYRNE
Corporate Secretary

SCHEDULE "A"

No. A950670
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE MATTER OF SECTION 144(l)
OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985 c. C-44 AS AMENDED
AND IN THE MATTER OF
THE ANNUAL GENERAL MEETING OF BC TELECOM INC.

BRIAN A. CANFIELD

PETITIONER

ORDER

BEFORE MASTER)
DONALDSON) MONDAY, THE 6TH
) DAY OF MARCH, 1995

THIS PETITION coming on for hearing *ex parte* this day at Vancouver, British Columbia; AND UPON HEARING Barry T. Gibson, Esq., Counsel for the Petitioner; AND UPON READING the Petition herein, and the Affidavits of Brian A. Canfield and Elizabeth J. Harrison, Q.C., both sworn the 1st day of March, 1995 and filed herein;

THIS COURT ORDERS that:

- (a) the Annual General Meeting (the "Meeting") of BC TELECOM INC., to be held on Wednesday, the 26th day of April, 1995, be held concurrently by way of two-way audio-video communication at the Head Office of BC TELECOM Inc. at 3777 Kingsway, Burnaby, British Columbia; at Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at Sheraton Centre, 123 Queen Street West, Toronto, Ontario; at 10:00 a.m. (Vancouver Time) and 1:00 p.m. (Toronto Time);
- (b) If the said two-way audio-video communication should fail to operate, the Meeting shall continue with the aforesaid locations linked by audio communication; and
- (c) The Meeting be otherwise called and held in accordance with the By-Laws of BC TELECOM INC., the *Canada Business Corporations Act*, and securities laws applicable to BC TELECOM INC.

THIS COURT FURTHER ORDERS that the Petitioner be granted leave at any time to seek to vary this Order.

BY THE COURT

"Irene McLeod"
DEPUTY DISTRICT REGISTRAR



BC TELECOM INC.



1995

AR22

We're a major force in Canada's telecommunications industry.

BC TELECOM is Canada's second largest telecommunications company,

offering comprehensive services to British Columbians through BC TEL – the province's largest provider of local and long-distance services – and through a group of businesses focused on related telecommunications services, including new services employing wireless and other leading-edge technologies.

These businesses include BC TEL Mobility Cellular, BC TEL Mobility Paging, BC TEL Advanced Communications, BC TEL Interactive, BC TEL Systems Support, ISM-BC, Telecom Leasing Canada and MPR Teltech Ltd.

The shares of BC TELECOM Inc. are listed on the Toronto, Montreal and Vancouver stock exchanges.

The share symbol is BCT.

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*In our world, knowing “where you’re at” isn’t as easy as it used to be.
We’re looking at a changing reality every day.
What do we see?*

*We see BC TELECOM as the company of choice in all its markets.
We see a strong organization that is responsive and flexible.
We see that there are no absolutes, no guarantees.*

This is the journey of change.

*And who will make this journey?
Customers, shareholders, employees, suppliers, partners.*

We see the future.

FINANCIAL HIGHLIGHTS	1995	1994	Change
Consolidated Highlights			
Operating revenues (<i>Millions</i>)	\$ 2,390.6	\$ 2,295.4	4.1%
Net earnings (<i>Millions</i>)	\$ 243.8	\$ 224.5	8.6%
Return on common equity	12.2%	12.2%	—
Earnings per share	\$ 2.00	\$ 1.88	6.4%
Dividends per share	\$ 1.27	\$ 1.23	3.3%
Customer access lines in service	2,334,809	2,264,252	3.1%
Long distance switched conversation minutes (<i>Millions</i>)	2,627	2,612	.6%
Cellular Operations Highlights			
Customers	218,806	148,062	47.8%
Penetration rate	6.8%	4.7%	44.7%
Estimated market share	60%	57%	5.3%
Average monthly revenue per customer	\$ 89	\$ 95	(6.3%)
Cash flow margin	51%	51%	—
Net earnings (<i>Millions</i>)	\$ 35.9	\$ 24.6	45.9%

Shareholders are invited to attend our multi-site Annual General Meeting, Wednesday, April 24, 1996.

Our two-way video-conferencing technology will allow full shareholder participation at the following locations:

- the auditorium at BC TELECOM's head office, 3777 Kingsway, Burnaby, B.C.;
- the Holiday Inn on King, 370 King Street West, Toronto, Ontario;
- the Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario.

The Annual General Meeting will begin at 10:00 a.m. Pacific time, 1:00 p.m. Eastern time.

evolution

This annual report isn't just about phones, fax machines, networks or dial tone.

It's about perspective.

It's about decision making.

It's about direction.

It's about recognizing and acting on the forces that are shaping our world.

Evolution or revolution?

Regardless of your point of view, there is no denying that things will never be the same.

So what does the future hold?

It's up to us.

Subject to change is a fitting theme for this year's annual report.

By the year 2000 – just four years from now – we'll see significant changes in how telecommunications impact the way we live, work and play. The opportunities and challenges in telecommunications, broadcasting, computing and information services are very exciting. They confirm we're in the right business at the right time.

Reality check

However, we face some reality checks along the way. Currently, most of our earnings – about 75 per cent – comes from BC TEL, our traditional telephone business. The remainder comes from emerging businesses such as wireless, interactive multimedia and advanced network services.

Here's another reality check: Compared to 1994 results, BC TEL's contribution to net earnings declined in every quarter last year, our first full year of long-distance competition under equal access. And this decline is currently outpacing the earnings growth we're seeing on the emerging side, though we expect to reverse that trend with the strategies we now have in place.

A glance at our 1995 financial statements shows no apparent cause for concern. Net earnings were \$243.8 million or \$2 per share, compared to \$224.5 million or \$1.88 per share in 1994. But here's a third reality check: Our numbers would not have been so good if we hadn't sold our interest in PMC-Sierra, Inc., a semi-conductor company. That sale gave us a one-time, after-tax gain of \$27.4 million or 23 cents per share. We actually recorded a decline in earnings in our continuing operations last year, mostly due to lower long-distance revenues. You'll find our financial highlights on page 2, and detailed results beginning on page 26.

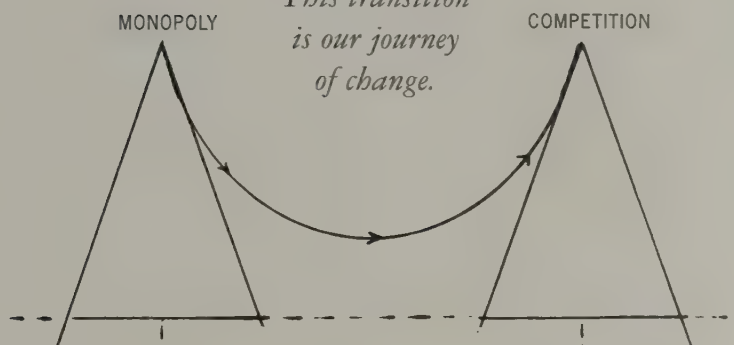
OUR JOURNEY OF CHANGE

Today's realities haven't caught us by surprise. They simply indicate we still have a lot of ground to cover in a relatively short time. I tell employees this is our journey of change. Our journey from yesterday's mountain peak of 100 per cent monopoly to tomorrow's peak of 100 per cent competition. There's no easy way to move from one peak to the other. We must come down one mountain before we can climb the other.



Our objective is to be the best company

*The transition
from being
the best service
provider in
a monopoly
environment to
being the best
in a competitive
environment
demands new
thinking and
decisive action.
This transition
is our journey
of change.*



very competitive market. It's a challenge, but we know how to win.

It's a journey of change for shareholders, too. One of the comforts of yesterday's monopoly was a regulated rate of return. Investment risk was low and the regulatory regime was designed to assure us a reasonable return. Now, our return to shareholders will be dictated by our success in an increasingly competitive marketplace. One reality is that we face a higher risk in our business today. In response to this risk, bond rating agencies downgraded some of our credit ratings last year, citing increased competition and regulatory uncertainty.

But we're well equipped for our journey. We know how to win in a competitive marketplace. We have the right employee

skills; a first-class network; and we're developing new revenue sources that will increase the value of your investment. Our future looks bright.

But it's a difficult journey, nonetheless, with many challenges facing us.

Our biggest internal challenge is to reduce operating costs in BC TEL, our core business. High costs translate into high prices. We will lose customers if we cannot continue to offer competitive prices. Our objective is to reduce BC TEL's operating costs – primarily in local and access – by at least \$100 million by the end of 1996. Most of this cost saving will result from reducing our work force by more than 2,300 positions.

A broadcasting licence would allow us to be a full competitor in the delivery of new broadcast services such as video-on-demand and on-line health and educational information. Current foreign-ownership rules shut us out. That's a barrier to competition and customer choice in B.C. We're fighting to have these rules changed.

BC Tel wants consumer help in cable scrap

The Vancouver Sun May 26, 1995

BC Tel workers back bid for plug into information loop

The Globe and Mail October 3, 1995

Cable TV users favor BC Telecom: Survey

The Province July 26, 1995

We began in 1995 and we're halfway to our target, thanks to early retirements and a concerted effort throughout the year not to fill vacancies unless customer service was jeopardized. I anticipate we'll reach our target with a voluntary separation program announced in February.

The impetus for cutting costs is easy to see. Long-distance competition is now a fact of life. Local-service competition is just around the corner. In fact, full and open competition at every turn on the information highway is not far off.

Our regulator, the Canadian Radio-television and Telecommunications Commission (CRTC), embraces the notion of competition in telecommunications, cable-TV and information services. However, the CRTC seems to forget that we're no longer on the mountain of monopoly, and that our competitors are not small, start-up companies in need of regulatory protection.

There's nothing small about AT&T and Sprint, both large U.S.-based corporations with significant stakes in Unitel and Sprint Canada, respectively. Yet both benefit

from regulatory advantages designed to help small long-distance companies here in Canada. Such regulatory shortsightedness hurts our customers. Twice in the past year we've had to appeal our case to the federal Cabinet.

We were successful in appealing a CRTC directive that we use revenue from local-service price increases to further reduce long-distance prices. The Cabinet agreed with our position that market forces, not regulation, should dictate long-distance prices.

We await the outcome of a second appeal – a request to be considered eligible to hold a broadcasting licence. The CRTC endorses the status quo – foreign-ownership rules that prohibit us from holding a broadcasting licence. We've argued that this is a barrier to competition and customer choice in B.C. In every other province, Canadians will have a choice between telephone and cable companies for a variety of broadcast services delivered to their homes, including television, video-on-demand and on-line health and educational information.

We anticipate a decision from the federal government this spring. If we're successful, it's important to remember that a broadcasting licence would only open the door to new opportunities for BC TELECOM. It's not a panacea for wealth and employment. Once we step through that door, we'll be on the cable companies' turf, and we can expect them to compete vigorously against us. The onus will be on us to offer services our customers want.

Thank to Employees

Many people deserve credit for our success to date. There are more than 13,000 people who work hard to make BC TELECOM a success every day. It's to front-line employees especially that I tip my hat. With change all around them, they remain focused on what's really important – our customers.

Communities throughout the province also benefit from the commitment of our employees, who for the sixth consecutive year gave more than \$1 million to the Telephone Employees' Community Fund. All donations go directly to community services. Also active are the Telephone Pioneers, former and present employees who volunteer their time and efforts in communities throughout B.C.

In addition, BC TELECOM contributes more than \$1 million annually to educational, health and cultural organizations in British Columbia.

Additional Contributions

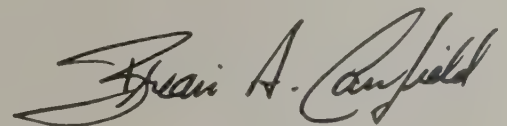
Diligent and astute guidance by our Board of Directors is another distinct advantage. In addition to regular meetings in Burnaby, our Board traveled to Ottawa last year to meet with government officials. And it also played an active role in reviewing corporate strategies with our executive team last fall. You'll find more about our Board and its activities beginning on page 22.

Change is marked as much by individuals as by events. Rocky Johnson and Kent Foster – two long-standing members of our Board – stepped down in 1995. Both are from GTE and both made invaluable contributions during our transition to a competitive environment. Joining us are Michael Masin and Tom White, also from GTE.

Last year also saw the departure of two senior executives – Leo Dooling and Lynn Patterson – who retired after distinguished careers with the company. The place is not the same without their wisdom and experience. At the same time, I'm pleased to have the leadership and business insights of my three executive vice-presidents – Don Calder, Ken Crump and Fares Salloum. I encourage you to read their perspectives on our company and industry on the following pages.

Finally, special thanks to shareholders who attended our first multi-site annual general meeting last year. I was pleased that so many of you joined us from our Toronto and downtown Vancouver sites. Thanks to your interest and feedback, we will repeat the format this year with sites in Toronto and Ottawa, in addition to our headquarters building in Burnaby.

There are new realities for our business. I'm excited about the possibilities that the journey of change offers our employees, shareholders and customers.



Brian A. Canfield

*Chairman and Chief Executive Officer
March 5, 1996*

customer company

It all depends on how you look at it.

*Our business environment demands that we look at each challenge on an individual basis,
that we examine every aspect to find the best solution.
In some cases, one company or one individual can be all of these things to BC TELECOM.*

*It's an approach that demands perspective and ingenuity.
But if we can turn challenge into opportunity,
we all win.*

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there }

who's who?

Communications Services What a difference a year makes. In last year's annual report, we talked about the pending restructuring of our retail business to complement our new wholesale division. We said it would probably take 18 months. We did it in six. We move fast.

What has made the transition smoother is our very straightforward goal: Make it easy for customers to do business with us. That's why we're aligned into seven lines of business – Local Services, Long Distance Services, BC TEL Advanced Communications, BC TEL Interactive, Personal Communications Services, Systems Support Services and Communications Systems – backed by our sales and field services teams.

Each line has its own customers, products, competitors, objectives and measures of success. We have even set revenue targets for markets that don't exist yet: for example, BC TEL Interactive's goal is \$160 million per year in revenue from multimedia services by 1999.

Customer-focused

We make it easy for customers to do business with us by providing choice, convenience and accessibility. In 1995, we extended our customer service hours and added Saturday service for residential customers. We launched Express Dial Tone, which gives customers a direct line into our service office when they plug in the phone in their new home.

Early this year, we launched a unique discount program for small and home-based businesses. Advantage Performance™ brings together several small-business suppliers to offer substantial discounts on everything

from courier services to fax machines to insurance. For the 300,000 people in the province who work from home, we deliver more than just long-distance savings.

We also speak our customers' language. We first offered in-language service to Chinese-speaking customers at our Richmond PhoneMart™ store in 1994. The program was so successful that we now offer the service in Mandarin, Cantonese and Punjabi in targeted areas. BC TEL Mobility also offers the service for its cellular customers who speak Cantonese or Mandarin.

Add-on Value

Another strategy is to add value to customer-supplier relationships. For example, we partnered with Vancouver City Savings Credit Union to establish on-line banking services for its members. Customers gain convenience and new services; VanCity builds customer loyalty and finds an innovative way to sell its products. Through this partnership, we're now marketing on-line banking services to other financial institutions.

Our successes breed success. A year after opening the most technologically-advanced telesales calling centre in Western Canada, we teamed up with the Hongkong Bank of Canada to build a national calling centre in B.C. to serve the bank's customers around the world. They chose us for our telecommunications capabilities and our expertise in running calling centres.

BC TEL Advanced Communications built and maintains a high-speed network linking the Vancouver Stock Exchange and 22 brokerage firms. This offers brokers access to on-line services through a single network.

Our goal is to help people communicate whenever, wherever and

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"Perfection in Services."

Choice, convenience and reliability.

We make it easy for customers to do business with us.

That includes speaking our customers' language.

Literally.

however they want. That's service.

Our Internet connections bring the world to our customers. We began by providing high-speed links for other Internet access providers. Now we manage the network of the largest access provider in B.C., and also offer our own direct Internet access for business and residential customers. Talk about fast.

Demand for wireless services is tremendous. Our cellular, paging, Autotel and mobile satellite customer base now tops 318,000. BC TEL Mobility Cellular alone added 70,744 new customers last year, and led the cellular industry in profitability with a 51.4 per cent cash flow margin. BC TEL Mobility will be at the forefront of the next generation of wireless service – personal communications services (PCS). It has been awarded one of four national licences to provide PCS in Canada.

Most of our markets are competitive now, and that's the way we want it. Local-service competition will be here in 1997. In preparation, we have submitted our



proposal for number portability, which will allow customers to keep their telephone number if they move to another local-service provider.

The last bastion of monopoly in communications today is the cable-TV industry. But that's changing. And that's where we want to be, offering customers choice in new broadcast services. In the meantime, we'll hone our market knowledge as a minority partner in Pacific Place Cable, which is seeking a broadcasting licence to serve residents at Concord Pacific Place in Vancouver.

This is an exciting time to be in telecommunications.

Fares F. Salloum

Executive Vice-President, Communication Services

f l e *

Positioning.

*Customers demand rapid response from an approachable supplier.
The ability to turn on a dime.*

*Our retail organization is designed to deliver services and control costs so we can compete effectively.
By working together, these lines of business give us an additional advantage over the competition:
synergy.*

We're connected.

i b i l i t y

HARVEY KALININ We are in an excellent position for the competition that's coming to the local-service market. By the end of 1997, our telecommunications network will be 100 per cent digital – an important milestone as it provides the technology platform for our lines of business to offer customers the latest in features.

And this digital network will be attractive for local-service competitors who face the option of leasing capacity from us or building their own networks. If we're doing our jobs right they'll turn to us, as our long-distance competitors have leased capacity from us instead of looking elsewhere.

Reaching 100 per cent digital

Reaching 100 per cent digital is not the goal line, however. A modern telecommunications network just allows us into the game. We know that all telecommunications service providers of the future will be able to choose from a number of avenues for delivering their services – wired, wireless, or satellite.

And we know that distance is fast disappearing as the deciding factor in the cost of communications – for both customers and service providers. Distance is just another incremental cost. In reality, there's nothing a

fixed, wired network can do that a wireless one will not soon be able to do as well and as cheaply. We have to give customers a reason for choosing us as their supplier.

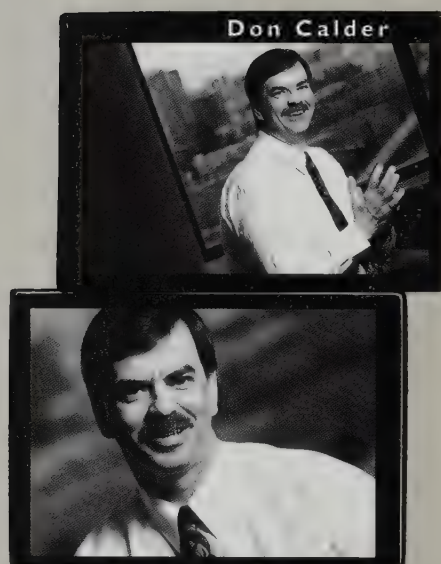
Don't keep a secret

A modern, digital network is a definite plus. Our greatest asset, however, is not the thousands of kilometres of copper and fibre-optic wires that reach into every corner of the province. It's what we do with it – the level of service we provide on both the wholesale and retail side, the quality of the products and services we deliver, and our ability to add value for our customers.

And it's our employees who deliver the goods. For example, Al Richmond, a network employee in 100 Mile House, won BC TELECOM's highest honour – the Distinctive Leadership Award – for his outstanding service during last summer's Gustafson Lake stand-off. Al was the single point of contact for the RCMP's communications needs during three tense weeks.

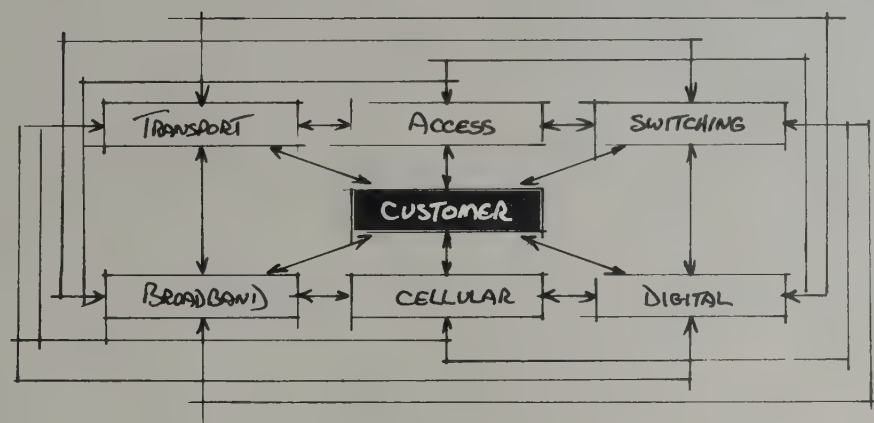
On the wholesale side

On the wholesale side, our focus is to be the low-cost, high-quality provider of network capacity. It means providing network reliability and connectivity. That's our strategy as we move from being a company that



Our network capacity gives us a valuable as

Our network of networks provides reliability and connectivity. Our customers know they can count on us to deliver the goods. That's why they lease network capacity from us.



Our job now is to keep that asset busy and generate more revenue.

builds and maintains telephone networks to one that offers voice communications as just one of many services.

We plan to spend approximately \$1 billion over the next 10 years to further upgrade our network infrastructure to meet the demand for information highway services. We got a head start in 1995 when we completed our third high-density digital route across British Columbia – on schedule and under budget. This addition to our network substantially increases our capacity for voice, data and video services. It also enhances network reliability. During recent flooding that affected our route near Hope, customer traffic was transferred seamlessly onto another route – something our competitors were unable to do.

As part of the British Columbia Electronic Highway Accord announced last fall by the provincial government, our network will provide British Columbians with high-speed access to future interactive services from homes, offices, schools and libraries. There is high-growth potential, for example, in the education sector for such services as video-conferencing and distance education.

Our network will be the gateway for bringing these services into most homes and small businesses in the province over the next decade. We will also continue to build broadband capability into our local-service

network. This will help us bridge the “last mile” to the customer’s home, setting the stage for the delivery of interactive multimedia services. And we’ll continue to lead the North American telecommunications industry in high-speed switching and network services.

It's all about the pipeline.

Profits in the wholesale business come from high volumes and low cost margins. We have the pipeline capacity to carry the high volumes. The key is to reduce our costs so we can lease capacity at prices that entice our wholesale customers – our competitors on the retail side – to choose our network instead of building their own. Better that they lease capacity from us and provide us a return on our investment in the process.

Serving both customers and competitors is just another aspect of doing business in the 1990s.

Don A. Calder
Executive Vice-President, Network Services



Despite our growth in earnings, 1995 is not an act we want to follow in 1996.

Earnings were up last year only because of the one-time gain from the sale of our interest in PMC-Sierra, Inc. early in the year. We took advantage of an excellent opportunity in selling our share of the company when we did. However, selling assets is not the ideal way to improve the quality of our earnings.

What we are witnessing with our earnings results is another indication of change in our industry. Since 1991, earnings from our new businesses – interactive, wireless and advanced network services – have boosted BC TELECOM’S net earnings by \$50 million. However, long-distance competition has had a significant impact on the contribution to earnings by our core business – BC TEL. In fact, BC TEL’s 1995 contribution declined at a faster rate than the earnings growth from new businesses.

Filling this gap and increasing our earnings in the coming years will be a challenge, given that BC TEL is still our major source for earnings – and that’s not about to change. But we’re ready for this challenge.

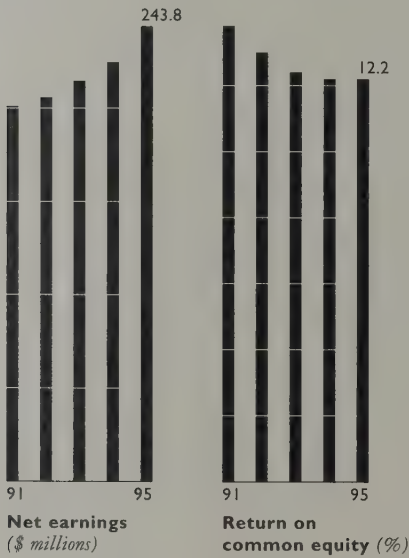
What has changed is the investment community’s view of our industry. We received a clear signal last year that lending institutions now view telecommunications as a higher investment risk as our industry moves toward full competition. During 1995, the Dominion Bond Rating Service and Canadian Bond Rating Service downgraded some of our credit ratings, along with the ratings of other major telecommunications companies in Canada.

Both agencies said the downgrades reflected the increasing competitiveness of our industry and the uncertainties about future regulation, not company-specific factors.

At the same time, investment analysts are beginning to see BC TELECOM as a growth stock. That’s another sign of the changing times. In the days when we were a monopoly with a regulated rate of return, the term ‘growth stock’ did not apply to us.

The signposts of our changing times include increased competition in most of our markets and the fact that the marketplace – not the regulator – will determine our rate of return in the future.

When a corporation undergoes extensive change, control is k



*Net earnings are up,
but we need to improve the quality of those earnings.
That’s the key to providing shareholders
with an attractive rate of return.*

transformation is a managed event.

However, the regulator is not stepping out of the picture entirely. In its split rate base decision last fall, the CRTC defined how we are to divide revenues and costs between the utility and competitive sides of our business. The commission will also set the allowable rate of return for the utility side for the next two years. The next stage is price cap regulation, which will govern the prices of many of BC TEL's products and services on the utility side, especially in the residential and business local-service market. Price cap regulation is scheduled to take effect January 1, 1998.

Under price caps, our ability to provide attractive returns to shareholders will be determined by our success in the marketplace. And that success will depend on our ability to price our products and services competitively. One thing is certain under price cap regulation – our prices must cover our costs. If our costs are too high, our profitability will be reduced. And high costs will make it difficult – if not impossible – for us to win and retain customers.

Therefore we must take steps now to reduce our operating costs. Employees throughout the company are doing their part. For example, a *War on Waste* cross-functional team was formed last year to identify ways to run our company more cost-effectively.



The team received more than 1,800 ideas from employees throughout the company. In total, the team identified opportunities that saved us \$2 million last year and will save another \$10 million this year in annualized costs.

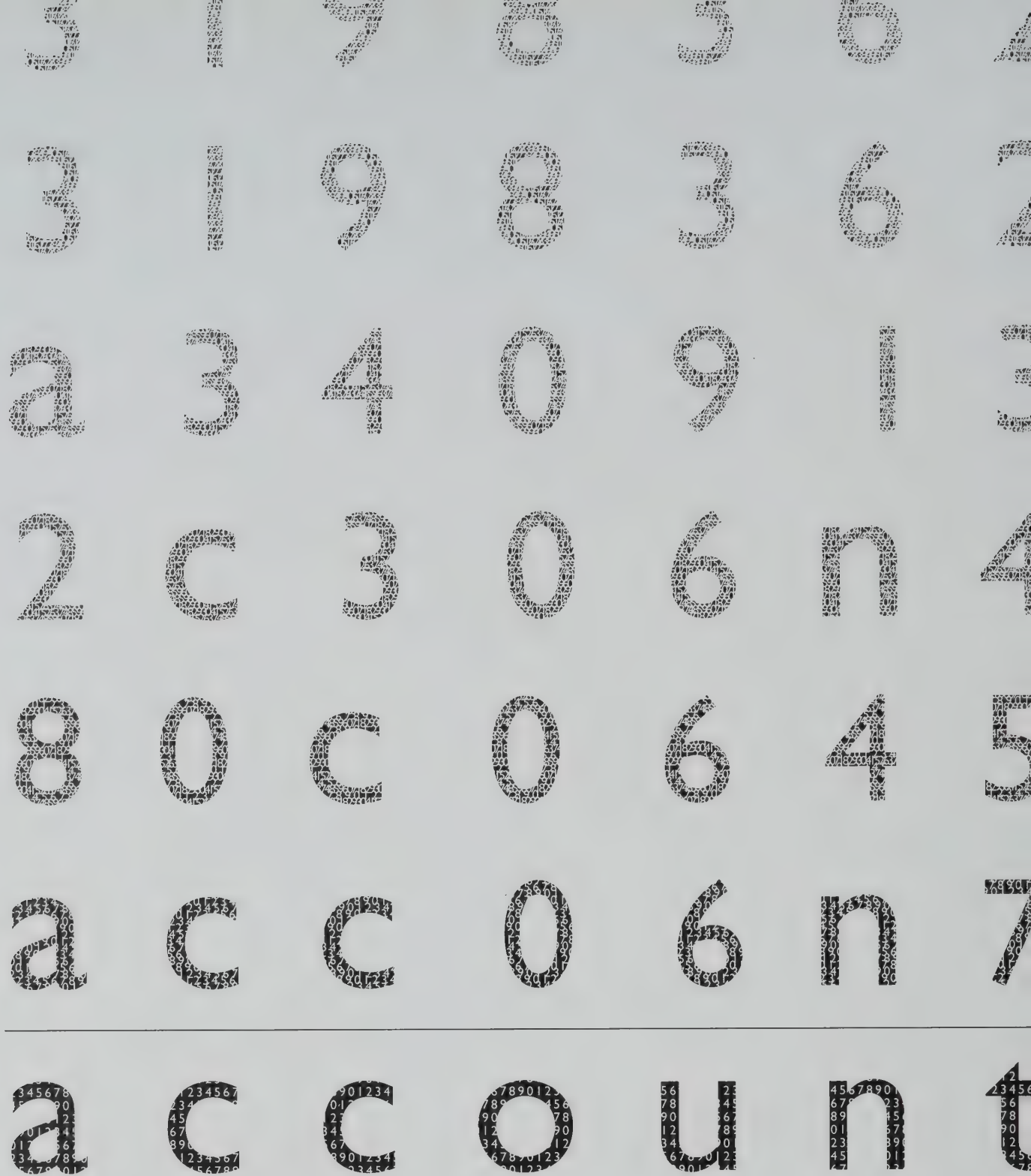
In addition, a concerted effort by employees has helped lower our cost per line, which is an important measure of our competitiveness.

However, we know we cannot shed costs fast enough by relying on small, incremental steps alone. That's why a major focus of our cost-cutting measures is the elimination of more than 2,300 positions from BC TEL by the end of this year.

Together, these efforts will help us keep our financial house in order.

C. Ken Crump

*Executive Vice-President, Corporate Services
and Chief Financial Officer*



Managing change.

Today's economic realities demand a new way of doing business.
Offering our products and services at the right price means getting our costs right.
The bottom line is that we're accountable in everything we do.

It's just good business.

ability

The responsibility for managing the business and affairs of BC TELECOM rests with the 11 women and men who comprise our Board of Directors. The Board carries out this responsibility by delegating to the Chief Executive Officer and his executive management team certain Board authorities – particularly those related to the formulation of strategic direction, objectives and plans that will lead us successfully into the 21st century.

The Board reviews and approves these strategies and plans, and – through monitoring and action – ensures that management implements them in a manner that complies with corporate policies and procedures and with the law. The Board also ensures that results are fairly and accurately reported to shareholders and other stakeholders.

Starting in 1995, the Board adopted several new procedures designed to ensure that it continues to receive timely and comprehensive information on BC TELECOM and its complex and rapidly changing business environment. These included:

- all-day strategic planning meetings with officers of the corporation and representatives from our industry;
- meetings in Ottawa with key government and industry officials.

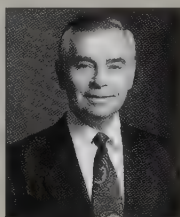
Also in 1995, the Board implemented self-assessment procedures developed by the Board Governance Committee to measure how well Board members are fulfilling their obligations – as a Board and as individual participants.

Another responsibility of Board members is their participation on one or more of the following committees:

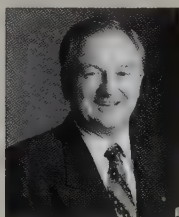
BC TELECOM BOARD GOVERNANCE COMMITTEE

This committee was established in 1994 to provide our Board a focus on governance practices – the process and structure used by the Board to supervise the business and affairs of BC TELECOM, with the objective of enhancing shareholder value. The committee's first task was an in-depth review of corporate governance at BC TELECOM. The committee submitted its report to the full Board last June, with recommendations that would continue to assure BC TELECOM an effective corporate governance

**BC TELECOM Inc. and
BC TEL Board of Directors**



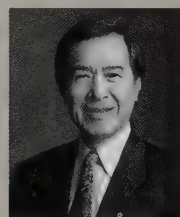
Brian A. Canfield
*Chairman and Chief
Executive Officer*
Member since 1989



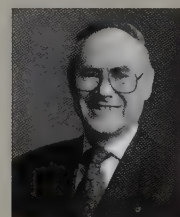
G. N. (Mel) Cooper
CM, OBC
*President, Seacoast
Communications
Group Inc.*
Victoria, B.C.
Member since 1988



**M. Rendina K.
Hamilton QC, OBC**
Corporate Director
Kelowna, B.C.
Member since 1980



Robert H. Lee OBC
*President, Prospero
Group of Companies*
Vancouver, B.C.
Member since 1993

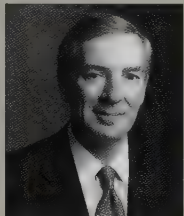


**Gordon F.
MacFarlane OBC**
Corporate Director
Burnaby, B.C.
Member since 1977

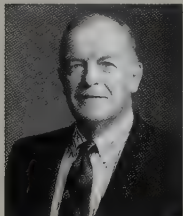
Victor F. MacLean
Corporate Director
Vancouver, B.C.
Member since 1967



Michael T. Masin
Vice-Chairman
and President -
International
GTE Corporation
Stamford, Connecticut
Member since 1995



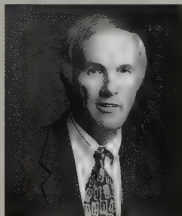
John W. Pitts
Corporate Director
Vancouver, B.C.
Member since 1975



Barbara J. Rae
CM, OBC
Corporate Director
West Vancouver, B.C.
Member since 1985



Thomas W. White
President
GTE Telephone
Operations Group
Irving, Texas
Member since 1995



W. Robert Wyman
Corporate Director
West Vancouver, B.C.
Member since 1986



system. The report was adopted a month later as the BC TELECOM Board Policy Manual.

This manual is used to ensure that the Board undertakes its responsibilities in the most effective manner possible. Given the dynamic nature of our business, Board policies are reviewed on an ongoing basis. The Board Policy Manual will be reviewed annually, modified as necessary, and reissued so that it continues to reflect policies that maximize the Board's effectiveness.

Further information on policies contained in the manual is included in the 1996 Proxy Information Circular.

Members: G. N. (Mel) Cooper, John W. Pitts (*Chair*), Barbara J. Rae, W. Robert Wyman

BC TEL Pension Trust Committee

This committee assists BC TEL in administering the company pension plan for management and exempt employees and the related trust fund. The committee reports to the Board on the actuarial soundness of the trust fund, the administrative aspects of the plan investment policy, the performance of the investment portfolios and compliance with government legislation.

Members: M. Rendina K. Hamilton (*Chair*), G. N. (Mel) Cooper, Gordon F. MacFarlane

BC TELECOM Audit Committee

This committee performs audit functions for both BC TELECOM and BC TEL. This entails reviewing all financial information provided to shareholders, the corporate control systems established by management and the Board, and the audit process itself. The committee's review of our consolidated financial statements includes the Management's Discussion and Analysis, which begins on page 26 of this annual report.

Members: M. Rendina K. Hamilton, Robert H. Lee, Victor F. MacLean (*Chair*), Barbara J. Rae

BC TELECOM Human Resources & Compensation Committee

This committee develops and recommends for Board approval the executive compensation program and the compensation paid to the Chairman and Chief Executive Officer and other executive officers of BC TELECOM and its subsidiaries. This committee also establishes a succession plan for BC TELECOM executives and other key managers.

Members: Gordon F. MacFarlane, Michael T. Masin, John W. Pitts, Thomas W. White, W. Robert Wyman (*Chair*)

unity

Eyes on the target.

*As we move forward, it's imperative that we move as one, with a common focus.
If we act decisively and wisely,
the opportunities are greater than the most optimistic visionaries can now imagine.*

*If we can achieve our goals, we'll be able to influence the course of change to the benefit of everyone
who has a stake in the future of BC TELECOM.*

The future: it's our destination and our journey.

FINANCIAL REVIEW: A key financial goal at BC TELECOM is to provide continuing growth in earnings and dividends. Our objective is to develop and implement business strategies that will earn a return on shareholders' equity, commensurate with our business and financial risk.

The following Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements.

Management’s Discussion and Analysis

EARNINGS OVERVIEW

In 1995, BC TELECOM’s common share earnings increased 9.3% to \$240.3 million from \$219.8 million in 1994. On a per share basis, earnings increased to \$2.00 in 1995 from \$1.88 the previous year.

The 1995 financial results include an after-tax gain of \$27.4 million or \$.23 per share from the sale of BC TELECOM’s interest in PMC-Sierra, Inc., a high-tech semi-conductor company. Excluding this gain, common share earnings declined to \$212.9 million or \$1.77 per share.

The following tables indicate the contribution to common share earnings from BC TELECOM’s major businesses.

Contribution to Common Share Earnings

(\$ Millions)	1995	1994	Increase (Decrease)	% Change
BC TEL Continuing Operations	160.5	195.0	(34.5)	(17.7)
Non-Regulated Businesses				
- Cellular Operations	35.9	24.6	11.3	45.9
- Other Operations	20.1	20.1	—	—
Sale of PMC-Sierra, Inc.	27.4	—	27.4	—
Corporate	(3.6) ¹	(19.9) ¹	16.3	—
	240.3	219.8	20.5	9.3

Contribution to Earnings Per Share

	1995	1994	Increase (Decrease)	% Change
BC TEL Continuing Operations	1.33	1.67	(.34)	(20.4)
Non-Regulated Businesses				
- Cellular Operations	.30	.21	.09	42.9
- Other Operations	.17	.17	—	—
Sale of PMC-Sierra, Inc.	.23	—	.23	—
Corporate	(.03) ¹	(.17) ¹	.14	—
	2.00	1.88	.12	6.4

¹ In 1994, a provision of \$14 million (earnings impact of \$7.8 million or \$.06 per share) was made for corporate restructuring costs. During 1995, this amount was charged to BC TEL and credited to BC TELECOM Corporate as the restructuring costs were incurred.

The following sections discuss BC TELECOM’s consolidated operating results and financial position, referring to specific subsidiaries or businesses where appropriate.

RESULTS OF OPERATIONS

Operating Revenues

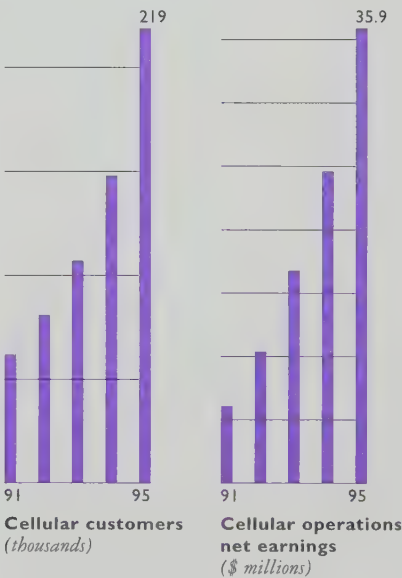
Operating revenues increased 4.1% or \$95.2 million to \$2,390.6 million in 1995 from \$2,295.4 million in 1994.

(\$ Millions)	1995	1994	Increase	% Change
Local service	1,088.2	970.7	117.5	12.1

Strong growth in BC TEL Mobility Cellular’s business in 1995 resulted in a \$44 million increase in local cellular revenues. The subscriber base increased 48% to almost 219,000 at year end, including a 65% gain in the fourth quarter compared to the same quarter in 1994. Although average monthly revenue per customer declined 6% to \$89 from \$95 in 1994, average monthly usage increased to 187 minutes from 185 minutes the previous year.

Local exchange services and terminal equipment rentals to business and residential customers accounted for \$29 million of the total increase in local-service revenues. This activity reflected a 3.1% growth rate in customer access lines – down from 4.3% in 1994. The number of business lines increased by 24,000 or 3.3%, reflecting in particular the popularity of B.C. as a tourist destination. The number of residential lines increased by 47,000 or 3.0%, primarily due to continuing inter-provincial and international migration to the province, albeit at a slower pace than in 1994.

Also contributing to higher local-service revenues was a \$20 million increase in revenues from competitors for interconnection with BC TEL’s network and a \$16 million increase in revenues from SmartTouch™ network management services. Revenues from SmartTouch services grew 40%, reflecting higher market penetration and a large increase in pay-per-use services. Market penetration ranges from 10% for call answer, the integrated voice messaging service, to almost 25% for call waiting. These percentages are now calculated on a standardized basis among the Stentor companies and may differ from those previously stated.

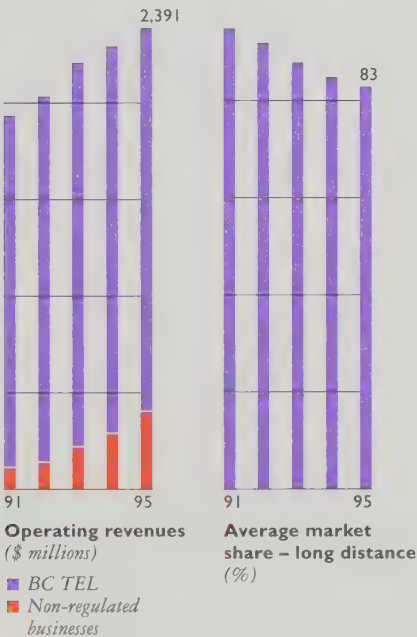


(\$ Millions)	1995	1994	Decrease	% Change
Long-distance service	821.4	915.3	(93.9)	(10.3)

The decline in long-distance revenues in 1995 was primarily due to an \$85 million or 9% reduction in revenues from message toll, 800 and WATS services. Although long-distance calling volumes remained close to 1994 levels, per-call revenue declined more than 8% as long-distance prices continued to fall. The lack of growth in long-distance calling reflects a less buoyant provincial economy and the erosion of BC TEL's market share. On a revenue basis, BC TEL's average market share declined two percentage points to 83%. Residential market share declined in 1995, reflecting a full year of equal access. At the same time, business market share increased slightly, due in part to successful retention and winback initiatives. In addition, BC TEL's net share of long-distance revenues pooled with other Canadian telephone companies was \$14 million less in 1995 than in 1994.

(\$ Millions)	1995	1994	Increase	% Change
Other	481.0	409.4	71.6	17.5

Higher revenues from non-regulated businesses accounted for \$65 million of the increase in other revenues. Not included here is the significant increase in cellular revenues – this is reflected in the local-service revenue category. ISM-BC and BC TEL Advanced Communications both recorded higher external and project-related revenues in 1995, and that accounted for over one-half of the \$65 million increase. The consolidation of the CANAC-Microtel joint venture in 1995, but not reflected in the 1994 financial statements, contributed \$19 million of the revenue increase.



Directory advertising revenues increased \$5 million, the result of higher advertising rates and sales volumes. Uncollectible revenues, which are netted in this category, decreased \$2 million due to an improvement in bad debt recoveries.

Operating Expenses

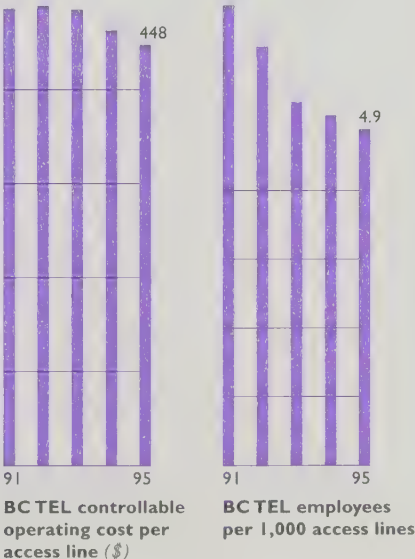
Operating expenses increased 6.0% or \$104.5 million to \$1,839.3 million in 1995 from \$1,734.8 million in 1994.

(\$ Millions)	1995	1994	Increase	% Change
Operations	1,383.7	1,317.4	66.3	5.0

Reflecting significantly higher revenues from non-regulated businesses in 1995, related operations expenses increased \$84 million in 1995. BC TEL Mobility Cellular accounted for more than a quarter of this increase due to the higher costs of supporting a significantly larger customer base. ISM-BC, BC TEL Advanced Communications and the consolidation of CANAC-Microtel's results in 1995 contributed most of the remaining increase in operations expenses for non-regulated businesses.

Reflecting a strong emphasis on cost base reduction last year, BC TEL's operations expense declined \$3 million in 1995 compared to 1994, excluding \$14 million in restructuring costs related to the elimination of more than 100 management positions during the year. Despite higher work volumes and higher wage rates and benefit costs for unionized employees, expenses for repair and maintenance, operator services, order processing and other plant operations declined during the year. An intensely competitive marketplace – particularly in long distance – resulted in significantly higher selling expenses, sales commissions and advertising costs. BC TEL's telesales centre was in operation for the full year compared to only a partial year in 1994. Billing and collection, property taxes and directory advertising costs were also higher in 1995.

On a corporate level, operations expense was \$14 million lower in 1995, since a provision made in 1994 to cover restructuring costs was not repeated in 1995.



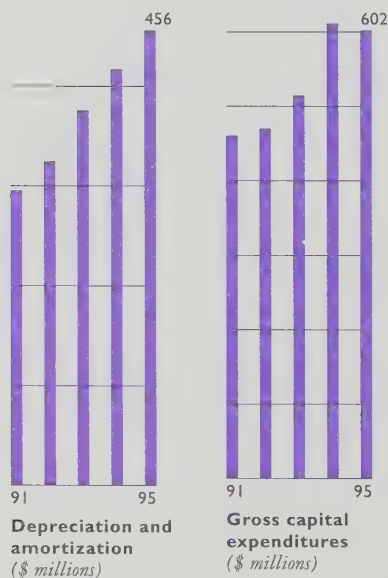
(\$ Millions)	1995	1994	Increase	% Change
Depreciation and amortization	455.6	417.4	38.2	9.2

The increase in depreciation and amortization expense was due primarily to the growth of BC TELECOM's asset base as discussed under "Liquidity and Capital Resources." BC TEL accounted for \$29 million of the increase and the non-regulated businesses the remaining \$9 million. BC TELECOM's composite depreciation rate increased slightly to 7.2% from 7.1% in 1994.

Other Income

(\$ Millions)	1995	1994	Increase	% Change
Other income	52.9	11.9	41.0	344.5

The increase in other income in 1995 was primarily due to the gain resulting from MPR Teltech Ltd.'s disposition of its interests in PMC-Sierra, Inc. MPR Teltech realized \$30.4 million of the \$41.6 million gain through the sale of Sierra Semiconductor Corporation shares acquired as a result of the transaction. The remainder of the gain reflects the December 31, 1995 market value of 573,426 shares of Sierra Semiconductor Corporation which MPR Teltech received from a price adjustment clause in the original agreement.



Income Taxes

(\$ Millions)	1995	1994	Increase	% Change
Income taxes	213.5	205.8	7.7	3.7

Higher pre-tax earnings increased income taxes by \$9 million in 1995. Partially offsetting this increase was a slight reduction in the effective income tax rate to 46.4% from 47.6% in 1994. A detailed reconciliation of the statutory income tax rate to the effective rate is included in Note 5 to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash from operations increased to \$797.1 million in 1995 from \$562.8 million in 1994. This increase reflected the combined effects of higher depreciation and amortization charges, plus lower working capital requirements due to differences in the timing of year-end payments between 1994 and 1995. After deducting dividends to shareholders and net capital expenditures from cash from operations, free cash flow was \$48.8 million compared to negative \$188.5 million in 1994.

Investing Activities

Capital expenditures allow BC TELECOM to satisfy growth in service demand, increase operating efficiency and productivity of both the wireline and wireless networks, and introduce new products and services into an increasingly competitive marketplace.

Gross capital expenditures totalled \$602 million in 1995 compared to \$611 million in 1994. Investment to provide regulated voice and data services accounted for \$491 million of the 1995 expenditures. Network modernization and expansion continued to be a major expenditure component. Demand for basic telephone service was met with the installation of digital central office and remote switches, resulting in the retirement of several analog switches. Ongoing fibre optic route construction expanded the capacity of long distance and transport facilities throughout the province. A \$40 million high-density route across the southern portion of the province was also completed in 1995.

As part of BC TEL Mobility Cellular's \$77 million capital spending program, 45 new cell sites were deployed in 1995, bringing the year-end total to 202. In addition, testing of CDMA digital technology began in the fourth quarter and will continue in 1996. Capital investment in other non-regulated businesses amounted to \$35 million.

Dividends

Dividends to common shareholders totalled \$152.8 million, representing 63.6% of common share earnings in 1995. For the ninth consecutive year, the Company increased its common dividend. The quarterly rate was increased by 3.2% to \$.32 per share in the second quarter.

Financing Activities

In 1995, BC TELECOM issued 3.5 million common shares for \$79.6 million, primarily through the Dividend Reinvestment and Share Purchase Plan. BC TELECOM had \$76.1 million of commercial paper outstanding at year-end – an increase of \$7.0 million from the \$69.1 million outstanding at the end of 1994. There were no issues of term debt for BC TELECOM in 1995.

BC TEL issued an aggregate of \$106 million in term debt during the year. On January 20, 1995, BC TEL issued \$50 million in medium term note debentures with a coupon rate of 9.35% payable monthly until maturity on January 27, 1999. On April 18, 1995, BC TEL issued a \$6 million structured medium term note debenture which resulted in an aggregate funding cost equal to the 90 day bankers acceptance rate minus 8 basis points. On June 27, 1995, BC TEL issued \$50 million of medium term note debentures with a coupon rate of 8.00% payable semi-annually until maturity on May 15, 2001.

During 1995, BC TEL redeemed \$62.6 million of first mortgage bonds as permitted under the terms of the trust deed and \$.5 million of preferred shares. BC TEL's outstanding commercial paper was \$146.8 million at year-end compared to \$270.3 million at the end of 1994.

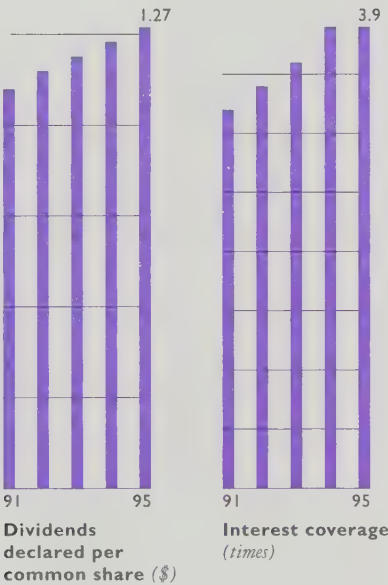
Credit Ratings

On May 17, 1995, the Dominion Bond Rating Service (DBRS) downgraded the BC TELECOM debenture rating to A from A (high), the BC TEL first mortgage bond rating to A (high) from AA (low), and the preferred share rating to Pfd-2 from Pfd-1. Ratings on BC TELECOM and BC TEL commercial paper remained unchanged, but the outlook was revised to negative from stable. Ratings on BC TEL unsecured debentures remained unchanged with a stable outlook. DBRS indicated the downgrades reflected uncertainties about future regulation, the intense nature of competition and rapid changes in technology which facilitate convergence and competition. The downgrades did not reflect company-specific factors.

On December 8, 1995, the Canadian Bond Rating Service (CBRS) downgraded the ratings on BC TEL unsecured debentures to A+ (Low) from A+. Ratings on BC TEL commercial paper, preferred shares and first mortgage bonds, and BC TELECOM commercial paper and debentures were reaffirmed. All ratings are classified as stable.

The table below provides both agencies' current ratings for all rated BC TELECOM and BC TEL securities.

	CBRS	DBRS
BC TELECOM		
Debentures	A(High)	A
Commercial Paper	A-1	R-1 (middle)
BC TEL		
First Mortgage Bonds	A+(High)	A (high)
Debentures	A+(Low)	A (high)
Commercial Paper	A-1 +	R-1 (middle)
Preferred Shares	P-1	Pfd-2



REGULATORY AND LEGAL ENVIRONMENT

Split Rate Base Transitional Regime

On October 31, 1995, the Canadian Radio-television and Telecommunications Commission (CRTC) issued Decision 95-21 (the Split Rate Base decision). It set out the methodology for splitting the telephone companies' business into a Utility segment and a Competitive segment, effective January 1, 1995. Decision 95-21 also dealt with a number of follow-up issues from Decision 94-19 (the Regulatory Framework decision).

Highlights of Decision 95-21:

- The CRTC ruled that no basis exists for the allegation that there are significant local and long-distance productivity imbalances between Canadian and U.S. carriers. Accordingly, the CRTC supported BC TEL's position and re-affirmed the validity of the existing methodology for assigning costs between the business segments.
- The CRTC re-affirmed its finding in Decision 94-19 on the need for rate rebalancing. As a result, the commission directed the telephone companies to implement an annual local rate increase of no more than \$2 per month at the start of 1996 and 1997, with a yet-undetermined third increase to coincide with the introduction of price cap regulation in 1998. The telephone companies were also directed to file offsetting reductions to their North American basic long-distance prices and contribution rates – equivalent to the increase in local-service revenues.
- The CRTC re-affirmed its finding in Decision 94-19 specifying an allowable ROE range spanning 200 basis points for the Utility segment, with a mid-point set at 50 basis points lower than the allowable ROE mid-point for the telephone company as a whole. In BC TEL's case, the allowable ROE range for the Utility segment is 10.25% – 12.25%, with a mid-point of 11.25%.
- The telephone companies must assign all new broadband investments and related expenses incurred after December 31, 1994 to their Competitive segment.

On November 30, 1995, BC TEL and other Stentor owner-companies filed a petition asking the federal Cabinet to remove the requirement that long-distance rates be reduced in conjunction with the \$2 local rate increases to be implemented in 1996 and 1997. On December 19, the Cabinet granted BC TEL's petition.

In response, a number of parties filed petitions seeking clarification of Cabinet's December 19 order. In late February 1996, Cabinet determined that no clarification is required.

Convergence

In May 1995, the CRTC tabled its recommendations regarding a policy framework for the information highway. On two issues of particular interest to BC TEL, the CRTC expressed the following views:

- Competition is desirable in broadcasting distribution undertakings (predominantly cable operators at present). However, telephone companies should not be allowed into cable until inherent barriers to local-service competition have been removed – a process that should take three to four years.
- The Canadian broadcasting system should be effectively owned and controlled by Canadians to ensure the integrity of the system. Stentor had proposed – on behalf of BC TEL – harmonization of foreign ownership rules across broadcasting and telecommunications. This would allow BC TEL to be exempted from the ownership provisions in broadcasting in the same way it is grandfathered on the telecommunications side.

In September 1995, the Information Highway Advisory Council (IHAC) issued its own recommendations in a report to the federal Industry Minister. On the specific matter of entry into cable distribution by telephone companies, IHAC stated:

Cable companies should not be permitted to offer local switched telephone service until telephone companies are permitted to provide licensed cable services, and telephone companies should not be permitted to offer licensed cable services until cable companies are permitted to offer local switched telephone service.

On the subject of foreign ownership restrictions, IHAC noted a lack of consensus among its members on whether the grandfathered status of BC TEL under the Telecommunications Act should be extended to the Broadcasting Act. However, the report recommended that:

- As a first step, foreign ownership regulations in the Broadcasting Act should be harmonized with those of the Telecommunications Act, which allows for 33 1/3 percent foreign ownership at the holding company level.
- As a second step, foreign ownership rules should be the same across all federal communications legislation so as to promote investment and competition in Canada.

Finally, the report expressed apparent doubt concerning the need or efficacy of relying on ownership and sovereignty controls as a primary means of achieving cultural and content goals:

The Council believes that with respect to investment, the behavior of capital is more critical a policy issue than its source. The reason is that the national ownership of globally dispersed operations is becoming more difficult to determine and less relevant in a global economy. The objective of retaining national sovereignty over the Information Highway could be realized by liberalizing foreign ownership limits to some degree, while at the same time ensuring that firms, regardless of their origins, operate in a manner consistent with Canada's economic, social and cultural objectives. Thus, the Council recommends that foreign ownership policies should be reviewed.

BC TELECOM has appealed to the federal government to be declared eligible to apply for a broadcast distribution licence (a cable licence) under the Broadcasting Act. The Company is supported by the provincial government, by numerous cultural organizations, by more than 20,000 British Columbians who have communicated their support to Ottawa, and by the Telecommunications Workers Union. A decision is expected this spring.

Developments in Local Service

In December 1995, the CRTC approved BC TEL's proposal to consolidate its 21 rate groups into 11 for both business and residential basic exchange services, effective January 1, 1996.

January 1, 1996 was also the effective date of the \$2 local rate increase mandated by the CRTC in Decision 95-21.

On January 31, 1996, BC TEL submitted its proposed local telephone service options to the CRTC. The proposal includes a lower-priced alternative to regular local telephone service as well as choices which would give customers more flexibility to manage their monthly phone bills. The submission was in response to CRTC Public Notice 95-49, issued in November 1995, to consider the merits of various approaches to local-service pricing options to ensure that local service remains universally accessible at affordable rates. The proceeding includes a regional hearing in Vancouver in March 1996, with the main public hearing beginning May 27 in Hull, Quebec. Among the issues to be addressed: the range of local-service rates which would be considered affordable; the minimum service level in any local-service option; the pros and cons of alternatives such as a budget service and targeted subsidy programs; and possible sources of funding for any of these options.

A number of other proceedings are underway in preparation for local-service competition. They involve the co-location of competitors' equipment in the telephone companies' central offices, local interconnection and network component unbundling, and local number portability.

Other Regulatory Issues

In June 1995, the CRTC issued Decision 95-12, denying Unitel's request for a balloting process to allow subscribers to pre-select their preferred long-distance service provider. The CRTC said it was "not persuaded that the expected benefits of conducting a ballot, in particular the potential reduction in customer inertia, would be realized to a degree that would warrant the associated costs."

In December 1995, the CRTC issued Decision 95-23 setting June 1, 1996 as the date when competitors must start paying contribution on their trunk-side traffic on an actual per-minute basis rather than the number of inter-connecting trunks. This decision will result in greater equity among participants since it removes the significant discount on contribution that competitors received by carrying more traffic per trunk than was assumed in the Commission's contribution calculation.

The CRTC issued Public Notice 95-53 in December 1995 to consider again whether it should be left to cellular service providers to determine the extent and nature of resale/sharing of their services. The current regime was established in 1991 to provide some measure of revenue stability to what was then perceived as a fledgling industry.

In January 1996, the CRTC issued Public Notice 96-2 to review its previous determinations regarding the regulatory framework for wireless services. This followed the federal government's granting of licences for personal communications services (PCS) in December 1995.

The CRTC said a fundamental change in circumstances warrants the review. In particular, the commission noted that public cordless telephone services will not likely develop as originally envisaged, and PCS will be similar in many respects to cellular service. However, the CRTC said the current regulatory regime for cellular service is appropriate and, therefore, it will not be an issue in this proceeding.

A CRTC proceeding is expected in the first half of 1996 to consider how price cap regulation of the telephone company's Utility segment is to be implemented on January 1, 1998. The proceeding will determine the mechanics of the price cap regime as well as what regulatory measures would be appropriate, given the shift in focus from earnings to price levels. It will also consider how the contribution component of the carrier access tariff should be treated in a price cap regime.

OUTLOOK

Regulatory Uncertainty

The regulatory environment described in the preceding section and elsewhere in this annual report has significantly increased the level of business and financial uncertainty for BC TELECOM. In particular, this uncertainty reflects the numerous issues that relate to the outcome of CRTC proceedings including quality of service measures, price cap regulation, co-location, unbundling and number portability.

The accompanying financial statements and notes do not reflect any particular outcomes or impacts related to the resolution of these issues.

Corporate Strategy

A key corporate strategy is to generate revenues from new businesses – which include BC TEL Mobility, BC TEL Advanced Communications and BC TEL Interactive. New revenue sources are expected to more than offset the loss of revenues in the competitive long-distance market. In the process, these new businesses are expected to contribute an increasing proportion of BC TELECOM's net earnings over time. Although regulatory decisions in 1995 clarified some issues related to new business opportunities, BC TELECOM still awaits a decision by the federal Cabinet regarding its eligibility to hold a broadcast distribution licence. This decision will have an impact on the future direction of BC TELECOM and its business investment decisions.

A second key corporate strategy is to reduce BC TEL's operating costs significantly. This entails the elimination of 2,000 union positions by the end of 1996. BC TEL is already halfway to its objective – the result of attrition, not filling vacancies and an early retirement program in December which was accepted by 577 unionized employees. A voluntary separation program offered to regular full-time clerical and plant unionized employees in February 1996 is expected to achieve the remaining reduction of approximately 600 plant and 400 clerical positions. BC TEL must reduce its cost of doing business to position itself for 1997, when competition is expected in the local and access side of the business.

Revenues and Expenses

Demand for telecommunications products and services is expected to continue to grow in 1996 and beyond. The economic outlook for British Columbia remains positive, although some indicators – such as population growth and housing starts, which affect service demand and revenues – were weaker last year and in 1996 are expected to remain below earlier growth rates. As a result, growth in the number of customer access lines is expected to remain at about 3% in 1996 – the same level as 1995, but below the 4% to 4.5% level of the preceding years. Significant growth is expected in local exchange service revenues as a direct result of growth in demand for service and the \$2 per month increase in local-service rates that took effect in January. In addition, higher local-service revenues are anticipated from continued strong revenue growth from BC TEL Mobility Cellular and Smart-Touch services.

Long-distance service revenues are expected to decline in 1996 due to competition and the impact of lower long-distance prices. BC TEL continues to focus on retaining and winning back customers, thereby minimizing market share loss. However, average long-distance market share is expected to decline to less than 80% in 1996 from 83% in 1995.

BC TEL and the Telecommunications Workers Union are currently negotiating a new collective agreement. The Company has proposed significant contract changes related to operational flexibility, productivity, cost containment and cost reduction. The impact of any new agreement on the level of operating expenses in 1996 and beyond is unknown at this time. A new compensation package for management employees is expected to be implemented this spring. As reported elsewhere in this annual report, BC TEL will continue its emphasis on reducing operating costs through process improvements and workforce reductions.

Liquidity and Capital Resources

BC TELECOM has made substantial commitments as part of its planned construction program for 1996, and to a lesser extent for subsequent years. The Company estimates that gross capital expenditures for 1996 through 2000 will be \$580 million to \$650 million annually.

By the end of 1996, digital switches are expected to replace all older analog switches. Deployment of new fibre links continues throughout the province. Virtually all major transport additions now use fibre ring technology, which provides for high-capacity diversified facilities. Expenditures will also support new telecommunication business initiatives and the ongoing upgrading of party-line facilities to individual line service.

BC TELECOM expects to continue financing the majority of its capital expenditure program with cash generated from operations. The dividend rate will be reviewed annually in light of prospective earnings and the company's financial position. The need for additional external financing during the next few years will moderate as funds generated by existing business activities increasingly satisfy the need for funds by both existing businesses and new business initiatives. As a result, the Dividend Reinvestment and Share Purchase Plan may be modified to limit the amount of new equity capital provided to the Company.

BC TEL expects to maintain its interest coverage and capital structure at levels appropriate for the changing business environment. A prospectus dated October 24, 1994 provides for the issue of no more than \$500 million in BC TEL medium term note debentures over a two-year period. There has been \$201 million issued to date, including a \$25 million note settled on January 4, 1996. BC TEL expects in the near future to complete an agreement with a syndicate of banks to provide a five-year committed line of credit for \$180 million and a 364-day committed line of credit for an additional \$180 million.

Redemptions of BC TEL first mortgage bonds and market purchase of any outstanding securities of BC TELECOM or BC TEL will be undertaken in 1996 where warranted.

Pending Litigation

An action commenced in 1993 by American Telephone and Telegraph Company (AT&T) and Unitel Communications Inc. in the Federal Court of Canada against MCI Communications Corporation (MCI), Stentor and most of its member companies, including BC TEL, is continuing. The lawsuit alleges infringement or possible infringement of four patents. These patents include communications between switching equipment and databases for the purpose of providing a variety of intelligent network services, such as 800 Services™, Calling Card Services™ and virtual private network service.

The Plaintiffs seek a permanent injunction to enjoin the defendants from further use of the patents, as well as unspecified damages and an accounting for profits. This lawsuit is related to previous litigation instituted by MCI against AT&T in the U.S. to have those patents and others set aside as being unenforceable. BC TEL and the other defendants continue to jointly defend the action vigorously as well as counterclaim against the Plaintiffs.

While the damages, as claimed, are potentially substantial, BC TEL believes its defences are complete and that loss in a material amount is unlikely. Finally, BC TEL and others continue to be indemnified against most of these potential damages by the companies furnishing the products and technology, the use of which is the subject of this litigation.

Management Report

To our Shareholders:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The independent auditors of the Company, Arthur Andersen & Co., have been appointed by the shareholders

to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal controls, audit results and accounting principles and practices. The committee's terms of reference are available, on request, to shareholders.



*Executive Vice-President, Corporate Services
and Chief Financial Officer*

Auditors' Report


To the Shareholders of BC TELECOM Inc.

We have audited the consolidated balance sheets of BC TELECOM Inc. as at December 31, 1995 and 1994 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements appearing on pages 35 to 46, inclusive, present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



*Chartered Accountants
Vancouver, B.C.
January 24, 1996*

Consolidated Statement of Earnings

<i>Years Ended December 31 (Millions)</i>	1995	<i>1994</i>
Operating Revenues		
Local service	\$ 1,088.2	\$ 970.7
Long distance service	821.4	915.3
Other (NOTE 2)	481.0	409.4
	<u>2,390.6</u>	<u>2,295.4</u>
Operating Expenses		
Operations	1,383.7	1,317.4
Depreciation and amortization	455.6	417.4
	<u>1,839.3</u>	<u>1,734.8</u>
Operating Earnings	551.3	560.6
Other income (NOTE 3)	52.9	11.9
Financing costs, net (NOTE 4)	143.7	139.8
Earnings Before Income Taxes and Minority Interest	460.5	432.7
Income taxes (NOTE 5)	213.5	205.8
Earnings Before Minority Interest	247.0	226.9
Minority interest	3.2	2.4
Net Earnings	243.8	224.5
Preference and preferred share dividends	3.5	4.7
Common Share Earnings	<u>\$ 240.3</u>	<u>\$ 219.8</u>
Earnings Per Common Share (\$)	2.00	1.88
Average Common Shares Outstanding (Thousands)	120,342	117,028

Consolidated Statement of Retained Earnings

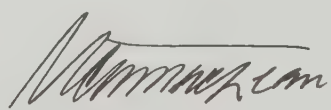
<i>Years Ended December 31 (Millions)</i>	1995	<i>1994</i>
Balance at beginning of year	\$ 797.0	\$ 722.5
Net earnings	<u>243.8</u>	<u>224.5</u>
	1,040.8	947.0
Less – Preference and preferred share dividends	3.5	4.7
– Common share dividends	152.8	144.0
– Premium on redemption of preferred shares	<u>—</u>	<u>1.3</u>
Balance at end of year	<u>\$ 884.5</u>	<u>\$ 797.0</u>

Consolidated Balance Sheet

December 31 (Millions)	1995	1994
ASSETS		
Current Assets		
Cash and temporary investments	\$ 7.0	\$ 6.0
Accounts receivable (NOTE 6)	455.7	469.3
Prepaid expenses and other	57.2	46.0
	519.9	521.3
Other Assets		
Leases receivable	27.1	25.8
Deferred charges (NOTE 7)	113.2	35.0
Investments (NOTE 8)	32.8	37.2
Goodwill and other	15.2	14.9
	188.3	112.9
Property, Plant and Equipment		
Buildings, plant and equipment, net (NOTE 9)	3,658.6	3,521.7
Land	40.1	39.9
Property under construction	133.5	122.0
Materials and supplies	66.6	59.2
	3,898.8	3,742.8
	\$ 4,607.0	\$ 4,377.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term obligations (NOTE 11)	\$ 247.0	\$ 367.6
Accounts payable and accrued liabilities	422.6	374.5
Income taxes payable	75.4	—
Dividends payable	39.7	37.4
Advance billings and customer deposits	74.2	71.0
	858.9	850.5
Other		
Long-term debt (NOTE 12)	1,308.4	1,264.4
Deferred income taxes	308.7	303.9
Other long-term liabilities	19.2	16.7
	1,636.3	1,585.0
Minority Interest	5.4	1.7
Shareholders' Equity (NOTE 13)		
Common equity	2,036.3	1,869.2
Preference and preferred shares	70.1	70.6
	2,106.4	1,939.8
Commitments and Contingent Liabilities (NOTE 15)		
	\$ 4,607.0	\$ 4,377.0

Approved by the Directors,


Director


Director

Consolidated Statement of Changes in Financial Position

Years Ended December 31 (Millions)

	1995	1994
Operating Activities:		
Net earnings	\$ 243.8	\$ 224.5
Depreciation and amortization	455.6	417.4
Deferred income taxes	4.8	(1.6)
Allowance for funds used during construction	(10.0)	(8.8)
Gain on sale of investments (NOTE 3)	(41.6)	(13.2)
Other, net	13.1	(4.5)
	665.7	613.8
Decrease (increase) in non-cash working capital (NOTE 14)	131.4	(51.0)
Cash from operations	797.1	562.8
Less – Dividends to shareholders	156.3	148.7
	640.8	414.1
Financing Activities:		
Common shares issued	79.6	70.2
Long-term debt issued	112.1	16.9
Change in short-term notes payable	(116.5)	286.0
Redemptions of long-term debt	(72.3)	(141.0)
Redemptions of preferred shares	(.5)	(68.3)
Other	2.6	(1.2)
	5.0	162.6
Investing Activities:		
Capital expenditures, net	(592.0)	(602.6)
(Increase) decrease in materials and supplies capitalized	(7.4)	.8
Salvage value of plant retired, net	(.3)	8.3
Increase in investments and other assets	(88.2)	(8.4)
Proceeds on disposition of investments	44.5	32.0
(Increase) decrease in long-term leases receivable	(1.4)	4.2
	(644.8)	(565.7)
Cash Position:		
Net increase during the year	1.0	11.0
Beginning of year	6.0	(5.0)
End of year	7.0	6.0
Represented by:		
Bank balances	(5.5)	2.7
Temporary investments	12.5	3.3
	\$ 7.0	\$ 6.0

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

The term "Company" is used to mean BC TELECOM Inc. and, where the context of the narrative permits or requires, its subsidiaries.

BC TELECOM Inc. operates in a single industry segment which is telecommunications services. The Company's principal subsidiary, BC TEL, is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain goods and services and periodically issues directives which affect the accounting treatment of specific items in BC TEL's accounts.

(a) Consolidation

The consolidated financial statements include the accounts of all the Company's subsidiaries of which the principal ones are BC TEL, B.C. Mobile Ltd., BC TEL Mobility Cellular Inc., BC TEL Systems Support Inc., Canadian Telephones and Supplies Ltd., MPR Teltech Ltd., Telecom Leasing Canada (TLC) Limited and ISM Information Systems Management (B.C.) Corporation (75%).

(b) Temporary Investments

Temporary investments are recorded at the lower of cost or market value.

(c) Goodwill

Goodwill, which represents the excess of the cost of acquired business over the fair value attributed to the net identifiable assets, is amortized over 15 years.

(d) Property, Plant and Equipment (Property)

Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and certain overhead costs. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction is based on BC TEL's regulated rate of return on average invested capital for the previous year, and is included in income as an offset against financing costs. For new telecommunications property, the capitalization rate for 1995 was 10.59% (10.89% – 1994).

The original cost of retired telecommunications property is charged to accumulated depreciation, and any proceeds on disposition are taken into income.

(e) Depreciation

Depreciation rates for property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. This is in compliance with regulatory requirements. Depreciation provisions are calculated on a straight-line basis incorporating these studies.

(f) Income Taxes

The Company and its subsidiaries use the tax allocation basis of accounting for income taxes. Deferred income taxes are provided for on timing differences between accounting income and taxable income.

The Company's regulated subsidiary, BC TEL, in accordance with industry practice for telephone companies subject to CRTC regulation, follows the modified liability method of income tax allocation. This method requires that the balance of deferred income taxes be adjusted for changes in tax rates.

(g) Translation of Foreign Currencies

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(h) Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessor, the majority of capital leases are through its subsidiary Telecom Leasing Canada (TLC) Limited, which acts as a financing intermediary. The long-term leases receivable represent the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Revenue from operating leases of equipment is recognized when service is rendered to customers. Total operating lease rental revenue in 1995 was \$69.0 million (\$73.7 million – 1994). The leased equipment is depreciated in accordance with the Company’s existing depreciation policy.

(i) Research and Development

Product development expenditures are directly expensed to income unless they meet certain identifiable criteria for deferral.

The amount charged directly to expense for research, development and improvement of new and existing products and services was \$8.0 million in 1995 (\$9.2 million – 1994).

(j) Interest Rate Related Contracts

Interest rate related contracts are entered into for risk management purposes. These contracts are accounted for on the same basis as the underlying exposure being hedged.

2. OTHER REVENUES

(Millions)	1995	1994
Service and equipment sales	\$ 226.1	\$ 173.3
Directory advertising	148.2	143.4
Research and development	66.0	65.3
Other	40.7	27.4
	<u>\$ 481.0</u>	<u>\$ 409.4</u>

3. OTHER INCOME

(Millions)	1995	1994
Lease finance income	\$ 8.6	\$ 7.9
Interest income	1.3	.9
Gain on sale of PMC-Sierra, Inc.	41.6	—
Equity loss	—	(6.6)
Gain on sale of Prism Systems Inc.	—	13.2
Other, net	1.4	(3.5)
	<u>\$ 52.9</u>	<u>\$ 11.9</u>

4. FINANCING COSTS, NET

(Millions)	1995	1994
Interest on long-term debt	\$ 129.9	\$ 130.9
Other interest	23.8	17.7
	<u>153.7</u>	<u>148.6</u>
Less – Allowance for funds used during construction	10.0	8.8
	<u>\$ 143.7</u>	<u>\$ 139.8</u>

5. INCOME TAXES

(Millions)	1995	1994
Current	\$ 208.7	\$ 207.4
Deferred	4.8	(1.6)
	<u>\$ 213.5</u>	<u>\$ 205.8</u>

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1995	1994
Combined basic federal and provincial statutory income tax rate	45.6%	45.3%
Federal large corporation capital tax	1.1	1.1
Allowance for funds used during construction	.1	.4
Non-taxable portion of capital gains	(1.1)	(.6)
Equity loss	—	1.1
Other	.7	.3
Effective income tax rate per Consolidated Statement of Earnings	<u>46.4%</u>	<u>47.6%</u>

The federal tax rate increased .3% on March 1, 1995, increasing BC TEL's deferred income taxes by \$1.9 million for the year. This increase was charged directly to income tax expense.

6. ACCOUNTS RECEIVABLE

(Millions)	1995	1994
Trade receivables	\$ 356.5	\$ 342.5
Current portion of leases receivable	34.4	33.8
Note receivable from sale of Prism Systems Inc.	—	22.2
Income taxes receivable	—	10.5
Other	64.8	60.3
	<u>\$ 455.7</u>	<u>\$ 469.3</u>

7. DEFERRED CHARGES

(Millions)	1995	1994
Workforce transformation costs	\$ 32.1	\$ —
Pension plan contributions in excess of charges to income	54.6	15.9
Cost of issuing debt securities, less amortization	12.4	13.1
Other	14.1	6.0
	<u>\$ 113.2</u>	<u>\$ 35.0</u>

During 1995, BC TEL began a workforce transformation program. As directed by the CRTC, the cost of this program is being amortized to operating expenses over five years. The amount of amortization recorded in 1995 was \$.3 million.

8. INVESTMENTS

(Millions)	1995	1994
Investments carried at cost:		
Alouette Telecommunications Inc.	\$ 25.1	\$ 29.6
PMC-Sierra, Inc.	—	3.0
Digital Courier International Inc.	4.2	—
Other	3.0	2.1
Investments carried at equity:		
CANAC-Microtel Joint Venture (50%)	—	2.0
Other	.5	.5
	<u>\$ 32.8</u>	<u>\$ 37.2</u>

In April 1995, the Company sold its investment in PMC-Sierra, Inc. This transaction included a price adjustment which resulted in the Company being issued shares of Sierra Semiconductor Corporation which are included in Temporary Investments at December 31, 1995.

Beginning in 1995 the results and accounts of the CANAC-Microtel Joint Venture (50%) are included in the financial statements using proportionate consolidation.

9. BUILDINGS, PLANT AND EQUIPMENT, NET

(Millions)	Cost	Accumulated Depreciation	Net Book Value	
			1995	1994
Telecommunications assets	\$ 4,805.6	\$ 2,161.9	\$ 2,643.7	\$ 2,570.5
Assets leased to customers	604.8	230.6	374.2	327.3
Buildings	517.2	176.4	340.8	335.8
Assets under capital lease	63.8	29.0	34.8	40.3
Other	516.4	251.3	265.1	247.8
	<u>\$ 6,507.8</u>	<u>\$ 2,849.2</u>	<u>\$ 3,658.6</u>	<u>\$ 3,521.7</u>

The composite depreciation rate was 7.20% for 1995 (7.11% – 1994).

10. FINANCIAL INSTRUMENTS AND STRUCTURED TRANSACTIONS

The Company and its subsidiaries use various financial instruments which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and currency risks, and as part of structured financing.

At December 31, 1995, the total notional amount of financial instruments outstanding was \$236.2 million.

Use of these instruments is subject to a derivatives policy which requires that no derivative transaction be effected for the purpose of establishing a speculative position and sets criteria for the credit worthiness of counterparties with whom the Company may enter into transactions.

11. SHORT-TERM OBLIGATIONS

Amounts due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

(Millions)	1995	1994
Notes payable under commercial paper program		
issued at an average rate of interest of 6.02%	\$ 222.9	\$ 339.4
Current maturities of long-term debt	24.1	28.2
	<u>\$ 247.0</u>	<u>\$ 367.6</u>

At December 31, 1995, the Company had in place available operating lines of credit totalling \$487.5 million (\$542.5 million – 1994).

12. LONG-TERM DEBT

(a) Details of Long-Term Debt

(Millions)			1995	1994
Series	Rate	Maturity		
BC TELECOM Inc. Debentures				
1	7.25%	July 15, 1998	\$ 175.0	\$ 175.0
BC TEL First Mortgage Bonds				
AD	10 1/4%	October 15, 2001	—	59.4
AF	9 7/8%	November 1, 2003	73.5	74.3
AK	6%	February 15, 1999	30.0	30.0
AL	11.35%	November 15, 2005	120.0	121.2
AN	10.50%	June 12, 2000	120.0	121.2
			343.5	406.1
BC TEL Debentures				
1	12%	May 31, 2010	50.0	50.0
2	11.90%	November 22, 2015	125.0	125.0
3	10.65%	June 19, 2021	175.0	175.0
4	9.15%	April 8, 2002	100.0	100.0
5	9.65%	April 8, 2022	150.0	150.0
			600.0	600.0
BC TEL Medium Term Notes				
	8%	February 15, 1998	60.0	60.0
	Floating rate	October 17, 1997	10.0	10.0
	9.35%	January 27, 1999	50.0	—
	Floating rate ¹	April 25, 1997	6.0	—
	8%	May 15, 2001	50.0	—
			176.0	70.0
Other Long-Term Debt				
Issued at varying rates of interest up to 12% and maturing on varying dates up to 2001			15.2	20.2
Capital Leases (NOTE 15b)				
Issued at varying rates of interest up to 12.89% and maturing on varying dates up to 2000			22.8	21.3
Total debt			1,332.5	1,292.6
Less – Current maturities			24.1	28.2
Long-Term Debt			\$ 1,308.4	\$ 1,264.4

¹ The \$6.0 million note has a special coupon linked to the Yen/Canadian dollar exchange rate which in 1995 resulted in payment by BC TEL of \$3.7 million to the holders of the note and receipt by BC TEL of \$3.7 million from a swap counterparty.

(b) BC TELECOM Inc. Debenture Issue Requirements

BC TELECOM Inc.'s debentures are issued under a Trust Indenture dated July 15, 1993 and are not secured by any mortgage, pledge or other charge. New issues of unsecured debt are subject to restrictions as to debt ratio and ownership of subsidiary companies. The debentures may not be redeemed prior to maturity.

(c) BC TEL First Mortgage Bond Issue Requirements

BC TEL's property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946 under which the first mortgage bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1.5% of the principal. In 1995, sinking fund payments were made in respect of the Series AF, AL and AN First Mortgage Bonds.

(d) BC TEL Debenture Issue Requirements

Debentures are issued under the Trust Indenture dated May 31, 1990 and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of first mortgage bonds are not permitted. New issues of unsecured debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

(e) BC TEL Medium Term Note Debenture Program

Under the terms of the medium term note debenture prospectus, a total of \$500.0 million in medium term notes may be issued prior to October 24, 1996. The notes will have maturities, interest rates and other features determined at the time of issue.

(f) Retraction/Exchange Provisions on BC TEL Debt

The Series AF First Mortgage Bonds may be redeemed on November 1, 1996 at the specified redemption premium. The outstanding debentures may not be redeemed prior to maturity.

The Series 4 Debentures are exchangeable, at the holder's option, effective on April 8 of any year during the four-year period from 1996 to 1999, for an equal principal amount of Series 5 Debentures.

(g) Long-Term Debt Maturities

Long-term debt maturities, excluding capital lease maturities, during each of the next five years are:

(Millions)

1996	\$ 12.7
1997	18.2
1998	235.2
1999	80.0
2000	120.0

13. SHAREHOLDERS' EQUITY

(a) Details of Shareholders' Equity

(Millions)				1995	1994
Common equity					
121,578,409 shares outstanding without par value (118,036,158 shares – 1994)				\$ 1,144.6	\$ 1,065.0
Retained earnings				884.5	797.0
Contributed surplus				7.2	7.2
				2,036.3	1,869.2
BC TEL Preference and Preferred, cumulative					
		Redemption Premium			
\$6.00	Preference	10.0%		.8	.8
\$4.375	Preferred	4.0%		5.7	5.8
\$4.50	Preferred	4.0%		4.8	4.8
\$4.75	Preferred	5.0%		7.1	7.1
\$4.75	Preferred (Series 1956)	4.0%		7.1	7.1
\$5.15	Preferred	5.0%		11.5	11.5
\$5.75	Preferred	4.0%		9.6	9.8
\$6.00	Preferred	5.0%		4.3	4.3
\$1.21	Preferred	4.0%		19.2	19.4
				70.1	70.6
Total Equity				\$ 2,106.4	\$ 1,939.8

(b) Authorized Capital

BC TELECOM Inc. is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

(c) Changes During 1995

Common shares

The Company issued 3,462,986 shares during 1995 (2,769,492 – 1994) for \$77.9 million (\$64.7 million – 1994) through the Dividend Reinvestment and Share Purchase Plan. The Company issued 79,265 shares during 1995 (280,372 – 1994) for \$1.7 million (\$5.5 million – 1994) through the Long-Term Incentive Share Option Plan (LISOP).

Preferred shares

In accordance with the April 26, 1994 issuer bid, BC TEL redeemed 12,150 preferred shares during 1995.

(d) Common Shares Reserved

At December 31, 1995 the following shares remained reserved:

- 3,240,150 shares for issuance under the Dividend Reinvestment and Share Purchase Plan. The purchase price for the plan is based on the average market price in the calendar month immediately preceding the investment date.
- 1,202,338 shares under the LISOP. Under the terms of the LISOP, the Company has granted key employees options to purchase common shares at fixed exercise prices as follows:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1995	395,300	395,300	\$ 24.25
1994	293,756	275,276	23.75 – 26.25
1993	444,300	280,525	19.25 – 21.25
1992	263,725	155,332	19.375 – 22.125
1991	270,600	78,000	19.125 – 20.00

Options granted may be exercised over specific periods not to exceed 10 years from the date granted.

- 2,000,000 shares under the BC TELECOM Option Plan introduced in 1995:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1995	213,300	213,300	\$ 23.125 – 24.25

14. WORKING CAPITAL

Decrease (increase) in non-cash working capital:

(Millions)	1995	1994
Accounts receivable	\$ 13.6	\$ (75.6)
Prepaid expenses and other	(11.2)	(15.0)
Accounts payable and accrued liabilities	48.1	55.8
Income taxes payable	75.4	(25.2)
Dividends payable	2.3	1.2
Advance billings and customer deposits	3.2	7.8
	<u>\$ 131.4</u>	<u>\$ (51.0)</u>

15. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company estimates capital expenditures for additional property to be \$580 million in 1996. Substantial purchase commitments have been made in connection with these expenditures.

(b) The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases.

At December 31, 1995, the future minimum lease payments under capital leases and operating leases were:

(Millions)	Capital Leases	Operating Leases
1996	\$ 7.2	\$ 14.1
1997	7.1	11.6
1998	6.5	10.3
1999	3.8	8.1
2000	.9	6.1
Thereafter	—	123.5
Total future minimum lease payments	25.5	<u>\$ 173.7</u>
Less imputed interest	<u>2.7</u>	
Capital lease liability	<u>\$ 22.8</u>	

16. PENSION PLANS

Pension plans are maintained for substantially all employees. The Telecommunications Workers Union sponsored pension plan for bargaining unit employees requires the Company to contribute a fixed percentage of employee gross earnings to trust funds.

Actuarial valuations are prepared for Company sponsored plans and the Company pays into trust funds the amounts recommended by the actuary.

Accrued pension costs for accounting purposes are determined in accordance with generally accepted accounting principles, using management's best estimate assumptions of future events. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the initial net plan assets and obligations are amortized over the expected average remaining service life of the employee group covered by the plans. The total pension expense amounted to \$63.3 million in 1995 (\$69.2 million – 1994). The cumulative difference between the amount contributed to the pension plans and the amount charged to income is recorded in the consolidated balance sheet under deferred charges. In 1995, the Company increased its contributions to a Company sponsored pension plan to eliminate an unfunded deficit.

Based on the actuarial reports of the Company-sponsored pension plans, which used projected employee earnings in estimating the accrued pension obligations and market related value for asset valuation, a comparison of the plan assets and plan obligations projected to December 31, 1995 has been estimated as follows:

(Millions)	1995	1994
Actuarial value of assets	\$ 752.8	\$ 698.2
Actuarial value of obligations	742.8	743.0
Surplus (unfunded deficit)	\$ 10.0	\$ (44.8)

17. RELATED PARTY TRANSACTIONS

Transactions with related parties, primarily affiliates of GTE Corporation (parent company of Anglo-Canadian Telephone Company of Montreal, the Company's principal shareholder), were purchases and sales of telecommunications technology, equipment and supplies, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year the Company purchased goods and services from related parties amounting to \$53.3 million (\$59.3 million – 1994). Sales to related parties amounted to \$3.6 million (\$12.8 million – 1994). These transactions were conducted in the normal course of business at prices established and agreed to by both parties.

18. SUBSEQUENT EVENT

On January 4, 1996, BC TEL settled a structured financing whereby BC TEL issued a medium term note debenture for \$25.0 million with an initial coupon of 7.50% and maturity of January 4, 1999 extendible at its option on an annual basis at increasing coupons with a final maturity no later than January 4, 2008. There was an offsetting interest rate swap which resulted in a floating rate financing at the 90 day bankers acceptance rate minus 12 basis points.

19. PRIOR YEAR PRESENTATION

The 1994 amounts have been reclassified, where applicable, to conform with the 1995 presentation.

Five-year Review

	1995	1994	1993	1992	1991
CONSOLIDATED STATISTICS					
Statement of Earnings <i>(Millions)</i>					
Operating revenues	\$ 2,390.6	\$ 2,295.4	\$ 2,209.6	\$ 2,037.2	\$ 1,935.8
Local service	1,088.2	970.7	867.0	778.2	698.7
Long distance service	821.4	915.3	977.4	898.4	920.1
Other	481.0	409.4	365.2	360.6	317.0
Operating expenses	1,839.3	1,734.8	1,668.8	1,520.0	1,453.3
Financing costs, net	143.7	139.8	147.1	144.1	144.8
Income taxes	213.5	205.8	200.7	180.0	154.9
Net earnings	243.8	224.5	214.6	205.7	201.0
Common share earnings	240.3	219.8	205.8	196.7	191.2
Balance Sheet <i>(Millions)</i>					
Property, plant and equipment, at cost	\$ 6,748.0	\$ 6,356.7	\$ 5,883.9	\$ 5,487.5	\$ 5,173.2
Accumulated depreciation	2,849.2	2,613.9	2,330.2	2,088.6	1,912.2
Total capitalization	3,667.2	3,573.5	3,336.1	3,263.4	3,084.5
Capital structure					
Short-term obligations	6.7%	10.3%	4.0%	9.3%	10.0%
Long-term debt	35.7%	35.4%	40.0%	37.5%	37.6%
Preference and preferred shares	1.9%	2.0%	4.2%	4.5%	5.0%
Common share equity	55.7%	52.3%	51.8%	48.7%	47.4%
Financial					
Earnings per common share	\$ 2.00	\$ 1.88	\$ 1.81	\$ 1.78	\$ 1.78
Dividends declared per common share	\$ 1.27	\$ 1.23	\$ 1.19	\$ 1.15	\$ 1.10
Common equity per share	\$ 16.75	\$ 15.84	\$ 14.99	\$ 14.22	\$ 13.42
Return on common equity	12.2%	12.2%	12.4%	13.0%	13.8%
Return on equity for regulatory purposes	8.9%	12.0%	12.0%	12.4%	13.6%
Interest coverage <i>(Times)</i>	3.9	3.9	3.6	3.4	3.2
Average shares outstanding <i>(Thousands)</i>	120,342	117,028	113,760	110,499	107,594
Other					
Capital expenditures, gross <i>(Millions)</i>	\$ 602.0	\$ 611.4	\$ 515.3	\$ 469.8	\$ 460.7
Customer access lines in service <i>(Thousands)</i>	2,335	2,264	2,172	2,080	1,988
Customer lines served by digital switches	94%	89%	84%	79%	77%
Long distance switched conversation minutes <i>(Millions)</i>	2,627	2,612	2,456	2,301	n/a
Regular full-time employees at year end	13,851	13,797	13,478	14,524	15,015
CELLULAR OPERATIONS STATISTICS					
Customers	218,806	148,062	106,582	81,344	62,289
Penetration rate	6.8%	4.7%	3.7%	3.1%	2.6%
Estimated market share	60%	57%	56%	56%	56%
Average monthly revenue per customer	\$ 89	\$ 95	\$ 95	\$ 94	\$ 95
Cash flow margin	51%	51%	49%	46%	42%
Net earnings <i>(Millions)</i>	\$ 35.9	\$ 24.6	\$ 16.8	\$ 10.4	\$ 6.1
Return on equity	35%	34%	33%	28%	24%
Gross plant in service per customer	\$ 1,131	\$ 1,350	\$ 1,479	\$ 1,479	\$ 1,534
Monthly deactivations <i>(churn rate)</i>	1.5%	1.5%	1.6%	1.7%	1.9%
OTHER STATISTICS					
MPR Teltech revenues					
Total <i>(Millions)</i>	\$ 73.0	\$ 76.4	\$ 78.3	\$ 62.5	\$ 58.0
From external customers	90%	88%	87%	61%	55%
Paging operations					
Number of pagers	89,831	77,077	66,657	59,577	19,112
Cash flow margin	38%	40%	41%	38%	12%

NOTE: Prior period statistics have been reclassified, where significant, to conform with the 1995 presentation.

Investor Information

(Millions)	Three Months Ended					1995
	Mar. 31	June 30	Sept. 30	Dec. 31		
QUARTERLY FINANCIAL DATA						
Operating Revenues	\$ 569.2	\$ 592.7	\$ 606.3	\$ 622.4	\$ 2,390.6	
Operating Expenses	435.0	457.0	455.0	492.3	1,839.3	
Operating Earnings	134.2	135.7	151.3	130.1	551.3	
Other income	2.4	33.8	22.4	(5.7)	52.9	
Financing costs, net	35.7	36.1	36.2	35.7	143.7	
Earnings Before Income Taxes and Minority Interest	100.9	133.4	137.5	88.7	460.5	
Income taxes	48.3	59.4	61.5	44.3	213.5	
Earnings Before Minority Interest	52.6	74.0	76.0	44.4	247.0	
Minority interest	.9	.7	.8	.8	3.2	
Net Earnings	51.7	73.3	75.2	43.6	243.8	
Preference and preferred share dividends	.9	.8	1.0	.8	3.5	
Common Share Earnings	\$ 50.8	\$ 72.5	\$ 74.2	\$ 42.8	\$ 240.3	
Earnings Per Common Share (\$)	.43	.60	.62	.35	2.00	
Average Common Shares Outstanding (Thousands)	119,004	120,017	120,748	121,507	120,342	

	1995	1994
COMMON SHARE STATISTICS		
Number of registered common shareholders	12,551	13,096
Number of shares outstanding at December 31	121,578,409	118,036,158
Volume of shares traded	12,313,900	11,787,100
The Toronto Stock Exchange price range (high-low)		
First Quarter	\$ 25 1/4 – 22 1/4	\$ 26 3/4 – 24
Second Quarter	24 1/2 – 22 7/8	26 – 21 1/2
Third Quarter	24 5/8 – 23 1/4	27 3/8 – 22 5/8
Fourth Quarter	25 1/4 – 23	26 1/4 – 22 1/2

Geographic Distribution (%)	Shareholders		Shares	
	1995	1994	1995	1994
British Columbia	57.0	56.0	6.4	8.6
Other Canadian	41.0	41.8	92.1	89.4
Foreign	2.0	2.2	1.5	2.0

Principal Ownership

At December 31, 1995, Anglo-Canadian Telephone Company of Montreal (a wholly-owned subsidiary of GTE Corporation) owned 61,603,690 shares, or 50.7% of the total common shares outstanding.

Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire common shares through automatic reinvestment of dividends and investment of optional contributions. The plan provides a discount of 5% on the price of common shares purchased with reinvested common share dividends and allows for optional contributions of up to \$20,000 per calendar year for the purchase of additional common shares. Further information is available by contacting Montreal Trust Company.

Common Share Dividends

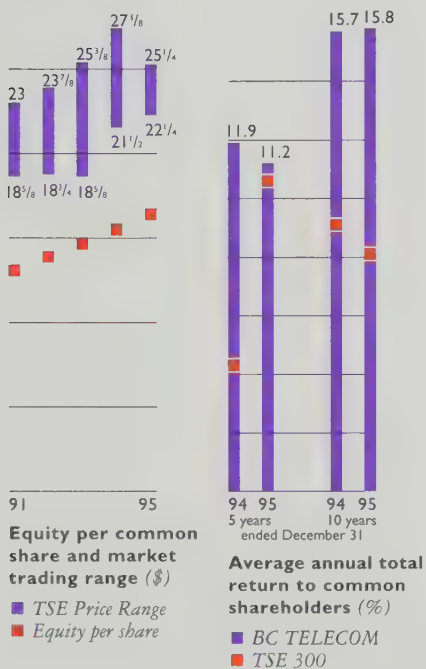
Dividends are payable quarterly on the first day of January, April, July and October. In 1995, dividends declared amounted to \$.31 per share for the first quarter, increasing to \$.32 for the second, third and fourth quarters, for an annual total of \$1.27.

Direct Deposit Service

Holders of all classes of shares can have their dividends deposited directly to their bank accounts. To utilize this service, contact Montreal Trust Company.

Market Trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges. The common share symbol is BCT.



Transfer Agent And Registrar

Montreal Trust Company

Duplicate Annual Reports

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting

BC TELECOM's multi-site Annual General Meeting of Shareholders will be held Wednesday, April 24, 1996, concurrently at 10:00 a.m. Pacific time and 1:00 p.m. Eastern time in the auditorium at BC TELECOM's head office, 3777 Kingsway, Burnaby, B.C.; at the Holiday Inn on King, 370 King Street West, Toronto, Ontario; and at the Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario.

Investor Inquiries

For information concerning change of address, transfer of shares, lost certificates, estate settlements, the Dividend Reinvestment and Share Purchase Plan, direct deposit of dividend payments, the elimination of multiple mailings or the receipt of Annual and Interim Reports, please contact Montreal Trust Company:

By mail: Montreal Trust Company
Shareholder Communications
510 Burrard Street
Vancouver, B.C. V6C 3B9

By telephone: (604) 661-0222 in the Vancouver area or outside Canada.
1-800-380-7757 elsewhere in Canada.

For additional financial information, please call our Investor Relations Department:
(604) 432-2413 in the Vancouver area or outside Canada.
1-888-228-4636 elsewhere in Canada.

For Your Information

For general information about BC TELECOM, please call our Corporate Communications Department:
(604) 432-2668

Our Internet address is:
<http://www.bctel.com>

If you'd like to give us feedback on our annual report, our e-mail address is:
a_report@bctel.com

BC TELECOM Group Executive Team

Dorothy E. Byrne
*Vice-President
Law and Regulatory
Affairs and Corporate
Secretary*
BC TEL
BC TELECOM INC.



Don A. Calder
*Executive Vice-President
Network Services*
BC TEL
BC TELECOM INC.



Brian A. Canfield
*Chairman and Chief
Executive Officer*
BC TEL
BC TELECOM INC.



Rob G. Cruickshank
*President and Chief
Operating Officer*
BC TEL MOBILITY



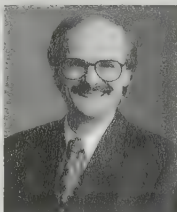
C. Ken Crump
*Executive Vice-President
Corporate Services and
Chief Financial Officer*
BC TEL
BC TELECOM INC.



Harold R. Ens
*Vice-President
Special Assignment*
BC TEL



Ian D. Mansfield
*Vice-President
Local Services*
BC TEL



Roy A. Osing
*Vice-President
Long Distance Services*
BC TEL



Jim W. Peters
*Vice-President
Corporate Planning
and Mergers
& Acquisitions*
BC TELECOM INC.



Fares F. Salloum
*Executive Vice-President
Communication Services*
BC TEL
BC TELECOM INC.



Paul D. Smith
*Vice-President
Human Resource
Consulting Services*
BC TEL



Gayle L. Stewart
*Vice-President
Corporate
Communications*
BC TEL

BC TELECOM Inc. and BC TEL Directors

Brian A. Canfield
*Chairman and Chief
Executive Officer*

**G. N. (Mel)
Cooper CM, OBC**
*President, Seacoast
Communications
Group Inc.
Victoria, B.C.*

**M. Rendina K.
Hamilton QC, OBC**
*Corporate Director
Kelowna, B.C.*

Robert H. Lee OBC
*President, Prospero
Group of Companies
Vancouver, B.C.*

**Gordon F.
MacFarlane OBC**
*Corporate Director
Burnaby, B.C.*

Victor F. MacLean
*Corporate Director
Vancouver, B.C.*

Michael T. Masin
*Vice-Chairman
and President -
International
GTE Corporation
Stamford, Connecticut*

John W. Pitts
*Corporate Director
Vancouver, B.C.*

**Barbara J. Rae
CM, OBC**
*Corporate Director
West Vancouver, B.C.*

Thomas W. White
*President
GTE Telephone
Operations Group
Irving, Texas*

W. Robert Wyman
*Corporate Director
West Vancouver, B.C.*



BC TELECOM Inc.

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BC TELECOM INC.**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

The Second Annual General Meeting (the "Meeting") of holders of common shares (the "Common Shares") of BC TELECOM Inc. (the "Corporation") will be held on Wednesday, April 26, 1995, at 10:00 a.m. (Vancouver time) and 1:00 p.m. (Toronto time) concurrently in the auditorium at the head office of the Corporation, 3777 Kingsway, Burnaby, British Columbia; at the Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario for the purposes of:

1. receiving the 1994 Audited Financial Statements of BC TELECOM Inc., including the Consolidated Balance Sheet, the related Consolidated Statements of Earnings and Changes in Financial Position and Auditors' Report thereon;
2. electing directors for the ensuing year;
3. appointing auditors for the ensuing year;
4. to consider and, if thought fit, approve the BC TELECOM Inc. Share Option Plan; and
5. considering such other matters as may properly come before the Meeting or any adjournment thereof.

The Directors of the Corporation have previously fixed and advertised the close of business on March 13, 1995 as the record date for the determination of shareholders entitled to receive this notice.

Your vote is important regardless of the number of Common Shares you own. Shareholders who are unable to attend the Meeting in person are asked to sign, date and return the enclosed form of proxy relating to the Common Shares held by them in the postpaid envelope provided for that purpose.

This meeting is being held concurrently at the three locations set forth in this Notice by two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia, a copy of which is attached as Schedule "A".

To be used at the Meeting, a proxy must be deposited at the office of our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at any time up to 10:00 a.m. (Vancouver time) on April 24, 1995 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting) or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or the day of the adjournment of the Meeting.

DATED at Burnaby, British Columbia this 22nd day of February, 1995.

By order of the Board

Dorothy E. Byrne
Corporate Secretary

PROXY INFORMATION CIRCULAR

GENERAL INFORMATION

This Proxy Information Circular (the "Circular") is furnished in connection with the solicitation of proxies by and on behalf of the management of BC TELECOM Inc. (the "Corporation") and its Board of Directors. The accompanying form of proxy is for use at the meeting of the holders (the "Shareholders") of the common shares (the "Common Shares") of the Corporation to be held on April 26, 1995 (the "Meeting") and at any adjournment thereof for the purposes set forth in the accompanying Notice of Annual General Meeting.

The Meeting is being held concurrently in three locations: at the auditorium, 3777 Kingsway, Burnaby, British Columbia; at the Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario by way of two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia ("Court"), a copy of which is attached as Schedule "A" (the "Court Order"). Reference is made to the Court Order for all of the terms set by the Court for the holding of the Meeting.

It is anticipated that this Circular and the accompanying Proxy Form will be mailed to the Shareholders on or about March 24, 1995. Unless otherwise stated, information contained in this Circular is given as at February 22, 1995. The head and registered office of the Corporation is located at 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7 and its telephone number is (604) 432-2413 in the Vancouver area or outside Canada, and/or 1-800-663-9405 elsewhere in Canada.

This solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Corporation (See "Solicitation of Proxies").

VOTING SHARES

On February 22, 1995, there were 119,003,310 Common Shares outstanding. The Common Shares entitle the holders of record on March 13, 1995 to one vote per share at the Meeting. On February 22, 1995, the Anglo-Canadian Telephone Company ("Anglo-Canadian") owned, directly and indirectly, 60,205,991 Common Shares representing approximately 50.6% of the issued and outstanding Common Shares. Anglo-Canadian is beneficially owned and controlled as to 100% of its common shares by GTE of Stamford, Connecticut. There are no other Shareholders, known to the Corporation, who own in excess of 10% of the issued and outstanding Common Shares with the exception of The Canadian Depository for Securities Limited, which may hold in excess of 10% of such shares for the benefit of its participants.

RESTRICTIONS ON ISSUE, TRANSFER AND VOTING OF COMMON SHARES

The "Canadian Telecommunications Common Carrier Ownership and Control Regulations" (the "Regulations") under the *Telecommunications Act* (the "Act") prescribe, inter alia, minimum levels of Canadian ownership and control for facilities-based telecommunications common carriers operating in Canada and for their holding corporations, such as the Corporation, to be maintained in order for those carriers to be eligible to operate under the Act. In addition, the Regulations prescribe rules which entitle the Board of Directors of a holding corporation to prohibit the issue, transfer or voting of shares of that corporation to or by any person who is not a Canadian, as defined in the Act.

Pursuant to the Regulations, in order for subsidiaries of the Corporation to retain their eligibility to operate under the Act, the Corporation is required to ensure that the percentage of the common shares of the Corporation owned by Canadians has not decreased, for a period of more than one year, by more than 5% from the percentage owned by Canadians at June 22, 1987 (the "Restriction"). Under the Regulations,

the Board of Directors of the Corporation may refuse to allot or issue, and may refuse to register a transfer of, or allow the exercise of voting rights attached to, common shares in circumstances that would cause the Corporation to be in violation of the Restriction. The Board of Directors can also require the sale of any common shares held in excess of the Restriction. These Regulations permit the Board of Directors of the Corporation to request affidavits or declarations as to ownership, as may be required.

APPOINTMENT OF PROXY AND DISCRETIONARY AUTHORITY

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a Shareholder, you should complete, execute and return the enclosed Proxy Form. By doing so, you can participate in the Meeting through the person or persons named on the Proxy Form. Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. If you do not indicate a preference, the Common Shares represented by the enclosed Proxy Form, if the same are executed in favour of the management nominees named in the Proxy Form and deposited as provided in the Notice of Meeting, will be voted for the election as directors of the nominees named herein, in favour of the appointment of auditors, to approve the BC TELECOM Inc. Share Option Plan and for all other matters identified in such Notice of Meeting.

Proxies are counted and tabulated by Montreal Trust Company, the transfer agent of the Corporation, in such a manner as to preserve the confidentiality of individual shareholder votes, except: (a) as necessary to meet the applicable legal requirements; (b) in the event of a proxy contest; or (c) in the event a shareholder has made a written comment on the Proxy Form.

DISCRETIONARY AUTHORITY OF PROXY

The enclosed Proxy Form confers discretionary authority upon the proxy nominees with respect to amendments or variations to the matters identified in the Notice of Meeting and other matters which may properly come before the Meeting.

The Board of Directors and management do not know of any such matter which may be presented for consideration at the meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the management nominees named in the appropriate Proxy Form.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the management nominees named in the accompanying Proxy Form have been appointed to act, will be voted or withheld from voting in accordance with the specification of the Shareholder signing the appropriate Proxy Form. If no such specification is made, then the Common Shares will be voted for the election of directors of the nominees named herein, in favour of the appointment of auditors, to approve the BC TELECOM Inc. Share Option Plan and for all other matters identified in the Notice of Meeting.

To be effective for use at the Meeting, proxies must be received by our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at or before 10:00 a.m. (Vancouver time) on April 24, 1995 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting), or with the Chairman of the Meeting prior to commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only Shareholders of record at the close of business on March 13, 1995 of Common Shares will be entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof. In certain circumstances a person who has acquired Common Shares subsequent to March 13, 1995 may be entitled to vote the Common Shares upon making a written request to that effect not later

than 10 days preceding the date of the meeting, to the Corporate Secretary of the Corporation at the registered office of BC TELECOM Inc., 19th Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7 and establishing that such Common Shares are owned by such person.

With respect to each matter properly brought before the Meeting, each Shareholder shall be entitled to one vote for each Common Share registered in the name of such Shareholder.

A Shareholder has the right to appoint a person other than the management nominees designated on the appropriate accompanying Proxy Form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing another Proxy Form. Proxy Forms which appoint persons other than the management nominees whose names are printed on the Proxy Form should be submitted to the Corporation and the persons so appointed should be notified. The person acting as proxy need not be a Shareholder.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the person named in a Proxy Form has been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing such Proxy Form. If no such specification is made, then the Common Shares may be voted in accordance with the best judgment of the person named in the Proxy Form. Furthermore, the person named in the Proxy Form will have discretionary authority with respect to any amendments to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the person named in such Proxy Form.

REVOCATION OF PROXY

Proxies given by Shareholders may be revoked at any time prior to their use by instrument in writing executed by the Shareholder or by his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, at any time up to and including 4:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting in Burnaby, British Columbia, on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, personal attendance at the Meeting.

If the instrument of revocation is deposited with the Chairman in Burnaby, British Columbia, on the date of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such Proxy.

SOLICITATION OF PROXIES

The cost of this solicitation of proxies will be borne by the Corporation. The Corporation will reimburse brokers, custodians, nominees and other fiduciaries for the proper charges and expenses incurred in forwarding this Circular and related materials to beneficial owners of Common Shares. In addition to solicitation by mail, officers, directors and regular employees of BC TEL may, without additional compensation, solicit proxies personally by telephone.

ANNUAL MEETING BUSINESS

ELECTION OF DIRECTORS

The Articles of the Corporation provide that the Board of Directors shall consist of not less than three nor more than eighteen members, each of whom shall be elected at an annual general meeting for a term of one year. The Directors have, pursuant to the by-laws, established that the number of directors be eleven. The following table sets out the information respecting all persons proposed to be nominated for election as directors. All of the persons named are currently directors of the Corporation except Thomas W. White.

None of the persons named in this table holds any shares of Anglo-Canadian or GTE other than Gordon F. MacFarlane, Kent B. Foster and Thomas W. White who own, respectively, 1,716, 44,887, and 7,944 common shares of GTE. The number of shares beneficially owned, or over which control or direction is exercised, not being within the knowledge of the Corporation, has been supplied by the individual concerned.

Name and Office Presently Held with BC TELECOM Inc. (2)	Present Principal Occupation	Date Became Director	Common Shares Beneficially Owned or Controlled
Brian Albert Canfield Chairman and Chief Executive Officer ⁽³⁾	Chairman and Chief Executive Officer of BC TELECOM Inc. and BC TEL	May 1, 1993	19,152
George Neldon (Mel) Cooper, C.M., O.B.C.	President, Seacoast Communications Group Inc. (Broadcasting)	May 1, 1993	1,651
Kent Benard Foster ⁽⁴⁾	Vice-Chairman, GTE Corporation and President, GTE Telephone Operations Group (Consolidated group of telecommunications companies)	May 1, 1993	2,002
Mary Rendina Kathleen Hamilton, Q.C., O.B.C.	Corporate Director	May 1, 1993	400
Robert Horne Lee, O.B.C. ⁽¹⁾	President, Prospero Group of Companies (Commercial real estate sales, investment and property management)	May 1, 1993	1,939
Gordon Frederick MacFarlane, O.B.C.	Corporate Director	May 1, 1993	11,908
Victor Frederick MacLean ⁽¹⁾	Corporate Director	May 1, 1993	2,500
John Wilson Pitts	President and Chief Executive Officer, MacDonald Dettwiler & Associates Ltd. (Designer/Manufacturer – high technology)	May 1, 1993	2,000
Barbara Joyce Rae, C.M., O.B.C. ⁽¹⁾	Chairman, ADIA Canada Ltd. (Office automation and personnel services)	May 1, 1993	961
Thomas William White ⁽⁴⁾⁽⁵⁾	Executive Vice-President, Network Operations, GTE Telephone Operations Group (Consolidated group of telecommunications companies)	–	–
William Robert Wyman	Chairman, Finning Ltd. (Heavy equipment – sales and service)	May 1, 1993	2,220

Notes:

(1) A member of the Audit Committee.

(2) All of the directors of the Corporation are also directors of BC TEL.

(3) Also a director and officer of one or more subsidiaries of the Corporation.

(4) Also a director of a number of subsidiaries of GTE.

(5) Thomas W. White has held various senior executive positions with GTE Telephone Operations Group.

Management does not expect that any of the nominees will be unable to serve as a director but, in that event, discretionary authority may be exercised to vote for a substitute.

EXECUTIVE COMPENSATION

1. SUMMARY COMPENSATION TABLE

The following table sets forth the summary of compensation of the Chief Executive Officer and the four named executive officers of the Corporation and its subsidiaries for the year ended December 31, 1994.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$)(3)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Securities Under Options Granted (#)	
BRIAN A. CANFIELD CHAIRMAN AND CHIEF EXECUTIVE OFFICER BC TELECOM Inc. and BC TEL	1994	450,000	294,784		24,400	10,081.43
	1993	450,000	201,370			
	1992	420,000				
LEO J. DOOLING VICE-PRESIDENT – FINANCE AND ADMINISTRATION, BC TEL ⁽⁴⁾	1994	225,000	129,160		11,100	
	1993	200,000	86,145			
	1992	200,000				
HAROLD R. ENS VICE-PRESIDENT – ON SPECIAL ASSIGNMENT	1994	210,000	124,160		9,900	4,674.60
	1993	200,000	88,140			
	1992	180,000	8,818			
E. LYNN PATTERSON PRESIDENT – SALES & SERVICE, BC TEL ⁽⁵⁾	1994	275,000	117,858		16,300	20,189.94
	1993	250,000	119,280			
	1992	220,000				
FARES F. SALLOUM PRESIDENT – BC TEL SERVICES Inc. ⁽⁶⁾	1994	225,000	155,250		11,100	4,203.60
	1993	180,000	82,240			
	1992	160,000				

Notes:

- (1) 1994 and 1993 bonus amounts paid under the Variable Incentive Plan in recognition of the achievement by executive officers of corporate and individual objectives were paid in part in December of the year in which they were earned and the balance was paid in February of the following year. No bonus amounts were paid under the Variable Incentive Plan in 1992, given the Corporation's financial results. The bonus amount received by Harold Ens in 1992 was paid pursuant to the Management Variable Compensation Plan (the "MVCP") for achievement of 1991 objectives under the MVCP, prorated to reflect his participation to August 31, 1991. Executive officers do not participate in the MVCP and it was on September 1, 1991 that Mr. Ens became an executive officer of BC TEL.
- (2) Perquisites and other personal benefits do not exceed the lesser of \$50,000.00 and 10 percent of the total of the annual salary and bonus of the named executive officers for the financial year and therefore are not disclosed.
- (3) This figure represents the aggregate of payment in lieu of earned vacation in 1994 and employer contribution under the Employee Share Purchase Plan (the "ESPP") to which all employees of the BC TELECOM group may subscribe. Under the ESPP, the employer contributes \$1.00 for every \$4.00 paid by the employee towards the market purchase of BC TELECOM Inc. common shares.
- (4) Leo Dooling is also Vice-President and Chief Financial Officer, BC TELECOM Inc.
- (5) Lynn Patterson is also Vice-President of Sales & Service, BC TELECOM Inc.
- (6) Fares Salloum is also Vice-President of Emerging Business, BC TELECOM Inc.

2. LONG-TERM INCENTIVE COMPENSATION

BC TELECOM Inc. and its subsidiaries provide long-term incentive compensation to key employees, including executive officers, in the form of the Long-Term Incentive Share Option Plan (the "LISOP") whereby options to purchase common shares of BC TELECOM Inc. are granted.

The following table sets forth individual grants of options under the LISOP during the financial year ended December 31, 1994 to the named executive officers.

OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

Name	Securities Under Options Granted (#) (1)	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price (\$/Security) (2)	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
BRIAN A. CANFIELD	24,400	8.31	25.25	25.25	February 22, 2004
LEO J. DOOLING	11,100	3.78	25.25	25.25	February 22, 2004
HAROLD R. ENS	9,900	3.37	25.25	25.25	February 22, 2004
E. LYNN PATTERSON	16,300	5.55	25.25	25.25	February 22, 2004
FARES F. SALLOUM	11,100	3.78	25.25	25.25	February 22, 2004

Notes:

- (1) The first 50% of the options became exercisable on February 22, 1995, the next 25% will become exercisable on February 22, 1996 and the final 25% on February 22, 1997.
- (2) The exercise price is the market value on the last trading day prior to the date of grant.

The following table sets forth each exercise of options during the financial year ended December 31, 1994 by the named executive officers.

AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at FY-End (#)		Value of Unexercised in-the-Money Options at FY-End \$(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
BRIAN A. CANFIELD	16,300	144,662.50	82,075	62,225	305,903.13	128,684.38
LEO J. DOOLING	9,300	52,312.50	17,450	24,050	63,481.25	41,168.75
HAROLD R. ENS			21,575	22,325	83,328.13	41,684.38
E. LYNN PATTERSON	24,800	153,062.50	12,800	34,900	51,200.00	59,062.50
FARES F. SALLOUM	5,400	38,475.00	13,775	21,825	52,278.13	32,684.38

Notes:

- (1) The value of in-the-Money Options at the Financial Year-End was calculated based on the market value on the last trading day of the financial year, less the exercise price of those in-the-Money Options.

3. DEFINED BENEFIT PLANS

Executive Officers of the Company participate in the contributory Pension Plan for Management and Exempt Employees ("Management Plan") and the non-contributory Supplemental Income Plan ("S.I.P.") for Executives (together called the "Plans"). The S.I.P. supplements the Management Plan ensuring a total benefit at retirement determined as 2% of a person's average final earnings times the total number of years of credited service to a maximum of 35. Average final earnings are defined as the average annual earnings during the 36 consecutive months during which the average annual earnings were highest. The following table shows the total of the annual retirement benefits payable from the Plans assuming retirement at age 60 or over:

PENSION PLAN TABLE

Remuneration \$(1)	Years of Credited Service				
	15	20	25	30	35
175,000	\$ 52,500	\$ 70,000	\$ 87,500	\$105,000	\$122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000
450,000	135,000	180,000	225,000	270,000	315,000
500,000	150,000	200,000	250,000	300,000	350,000
550,000	165,000	220,000	275,000	330,000	385,000

Notes:

- (1) The compensation (i.e. annual earnings) covered by the Plans for each of the named executive officers is their respective Salary shown in the Summary Compensation Table.
- (2) The benefit under the Plans is payable for a member's lifetime with a 60% benefit payable to a surviving spouse. The benefit payable under the Plans is not reduced by integration with the Canada Pension Plan or Old Age Security benefits.

The years of credited service as of December 31, 1994 for pension plan purposes for the named executive officers are as follows: Brian A. Canfield, 38.5 years; Leo J. Dooling, 28.6 years; Harold R. Ens, 36.9 years; E. Lynn Patterson, 30.7 years; and Fares F. Salloum, 21.6 years.

4. COMPOSITION OF THE COMPENSATION COMMITTEE

The following individuals served as members of the Corporation's Human Resources and Compensation Committee (the "Committee") during 1994:

W. Robert Wyman – Chair

Kent B. Foster

James L. Johnson

Gordon F. MacFarlane – former Chairman and Chief Executive Officer, BC TEL.

John W. Pitts

5. REPORT ON EXECUTIVE COMPENSATION

BC TELECOM's executive compensation program is administered by the Human Resources and Compensation Committee (the "Committee") which is composed of five non-employee directors. The Committee met nine times in 1994 to receive information on and determine matters regarding executive compensation, in accordance with policies approved by the Board of Directors. Recommendations for changes to the policies are reviewed on a periodic basis to ensure they remain current, competitive and consistent with the Corporation's overall goals. The terms of reference of the Committee also provide that one of its purposes is to establish a plan of continuity for executive and other key employees of the Corporation and its subsidiaries.

The Committee develops and recommends to the Board for approval the Corporation's executive compensation philosophy and guidelines and the compensation paid to the Chairman and Chief Executive Officer and other executive officers. The Committee oversees the terms of reference of and selection of outside consultants to review executive compensation policies for the Corporation.

Compensation Philosophy and Determination

The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating; will attract, hold and inspire qualified executives; and will encourage performance by executives to enhance the growth and profitability of the Corporation and its subsidiaries. Achievement of these objectives will contribute to an increase in shareholder value. The Committee adopts the use of varied compensation plans to optimize the role of the executive compensation program in balancing the Corporation's short and long term incentives.

The Committee positions its executive compensation (including salaries and incentive awards) at or near (adjusted for size, complexity and performance) the median of the range of compensation levels for comparator companies. The comparator companies provide a wide range of products and services and they experience a variety of different business imperatives, but they demand executive talents similar to those required by BC TELECOM.

External consultants, expert in executive compensation practices, conduct surveys to provide competitive data reflecting comparable knowledge, skills and talents and the compensation paid therefor. Variables such as corporate size and earnings, rates of growth, complexities of management related to the transition from regulated to competitive markets and development of new business opportunities and sources of revenue all have an influence on compensation levels and are analyzed and considered in setting compensation.

The salary ranges and structure including target bonuses are based upon market analyses carried out in early 1994 and reflect competitive practices in the marketplace in which the Corporation competes to attract and retain qualified executives.

Compensation Mix

The Corporation's executive compensation program has three components - salary, the opportunity to earn an annual cash incentive under the Variable Incentive Plan, and a long term incentive share option plan - all of which are designed to incent the executive to increase shareholder value.

With the implementation of a Variable Incentive Plan in 1992, the Committee viewed the cash compensation of executive officers as a combination of base salary and the opportunity to earn compensation

under the Variable Incentive Plan. Since then, no adjustments have been made to the base salary range for executive officers. Any changes to the base salary of specific executive officers during 1994 have been to reflect changes in the officer's area of responsibility or to reflect upward movement within the established base salary range for the officer's specific position.

The Variable Incentive Plan was introduced to provide a link between executive incentive awards and corporate strategic goals. Performance measurements focus on corporate objectives of earnings per share, cost per line, quality of service measurements and on achieving individual objectives such as the promotion of teamwork and improved communications with employees at all levels. A range of percentages of base salary is determined as a maximum incentive for each executive officer. This range was made 5% higher in 1994 in order to align with variable incentive plans of comparator companies. The Committee may, in certain circumstances, apply a multiple to this percentage, depending upon the achievements of corporate performance and the achievement of individual goals.

BC TELECOM's successful financial performance in 1994 resulted in executive short term incentives being paid in accordance with the Variable Incentive Plan formula, under the direction of the Committee for that year.

The Long Term Incentive Share Option Plan ("LISOP") provides an opportunity for the Committee to grant share options taking into consideration the prior year's grant and the current level of cash compensation. The amount of the grant is also determined by the individual executive's role in achieving longer-term results as well as recognizing recent performance towards that objective. The LISOP provides and maintains a direct link between the creation of shareholder value and individual executive performance. Grants of share options made under the LISOP are based on the market price of the common shares of BC TELECOM on the day preceding the date of the grant. Options are granted for terms of up to 10 years. The options granted under LISOP in 1994 are exercisable as to 50% of the shares granted after the first year, 25% of the shares granted after the second year and 25% of the shares granted after the third year.

As part of the overall executive compensation program, the Corporation has established a non-contributory supplementary income plan which provides for an amount to be paid to a retired executive officer as a supplement to the amount payable under the Corporation's contributory pension plan for management. Both these plans are referred to in this report under Section 3 titled "Defined Benefit Plans".

The Chief Executive Officer

The principles for establishing, measuring and determining the compensation of the Chief Executive Officer follow the same philosophy as for the other executives, including named executive officers. The Committee uses a competitive frame of reference which matches the median of the comparators used by the Corporation (at target). This also extends to the compensation mix for the Chief Executive Officer which is targeted to match the distribution found in most of the comparators with respect to the office of chief executive officer.

The salary structure of the Chief Executive Officer is established to be competitive with median target cash compensation levels. When target bonuses are added to the mid-point, the resulting target cash compensation is at the median competitive level.

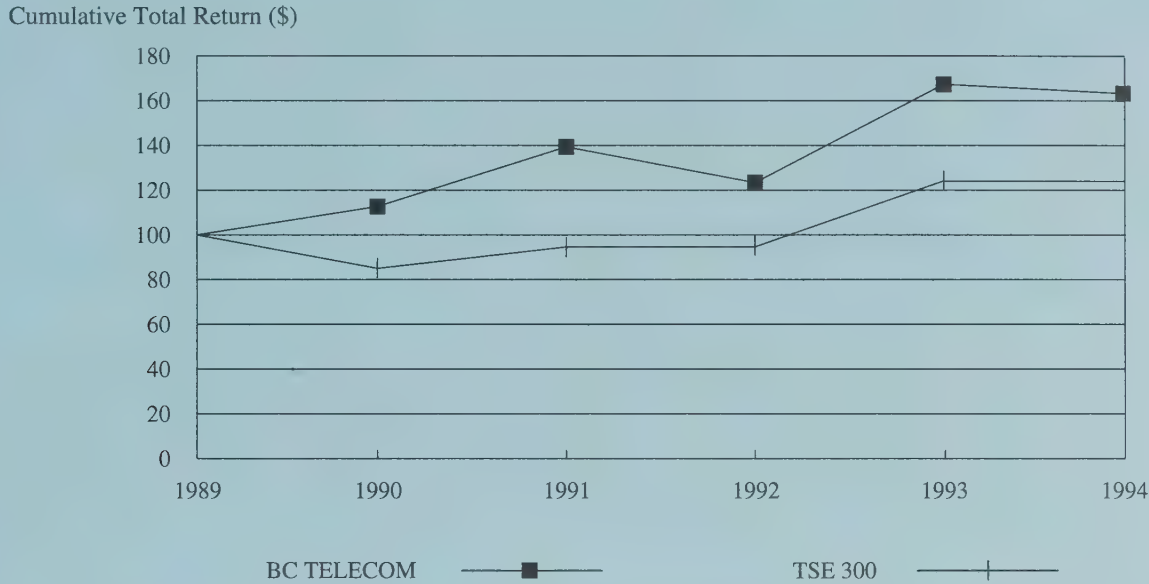
Report presented by:

W.R. Wyman (Chair) J.L. Johnson
K.B. Foster G.F. MacFarlane

J.W. Pitts

6. PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return over the past five years ending December 31 for \$100 invested in BC TEL ordinary shares (exchanged for BC TELECOM Inc. common shares effective May 1, 1993) and the TSE 300 Index. Cumulative total shareholder return reflects both the change in share price and the reinvestment of dividends at 100% of the market price on each of the dividend payment dates.



	1989	1990	1991	1992	1993	1994
BC TELECOM	100	112	139	125	169	165
TSE 300	100	85	95	94	125	124

Notes:

- (1) Ordinary shares of British Columbia Telephone Company were exchanged for common shares of BC TELECOM Inc. on a one-for-one basis effective May 1, 1993, as part of the arrangement between the Corporation and BC TEL, pursuant to which all holders of ordinary shares of BC TEL became shareholders of the Corporation.
- (2) Had dividends on the ordinary shares of BC TEL to April 30, 1993 and the common shares of BC TELECOM Inc. thereafter been reinvested through their respective Dividend Reinvestment Plans at 95% of the market price, the value of the \$100 invested on December 31, 1989 would have grown to \$167 by December 31, 1994.

7. COMPENSATION OF DIRECTORS

The following table describes the arrangements under which directors of the Corporation who were not employees were compensated during the year ended December 31, 1994.

BOARD	1st QUARTER (\$)	2nd, 3rd and 4th QUARTERS (\$)
Members' Quarterly Fee	3,000 per quarter	3,500 per quarter
Members' Meeting Fee	800 per meeting	1,000 per meeting
Chairman's Meeting Fee	1,200 per meeting	1,200 per meeting
COMMITTEES		
Members' Quarterly Fee	—	500 per quarter
Members' Meeting Fee	800 per meeting	1,000 per meeting
Chairman's Quarterly Fee	—	1,000 per quarter
Chairman's Meeting Fee	1,200 per meeting	1,000 per meeting

All directors of the Corporation were also directors of BC TEL and the foregoing fees were paid as to 50% by each corporation. Directors also received reimbursement for out-of-pocket expenses.

No fees were paid to the Chairman of the Board, as the by-laws provide that employees are not paid director's fees.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Corporation, together with all affiliates of GTE, has directors and officers liability insurance. The Corporation has a total of \$125 million of coverage for both directors and officers as a group. The Corporation through its by-laws, indemnifies all directors and officers and is liable in respect of directors and officers for \$1 million deductible per claim payable under such insurance. Premium payments totalling \$124,800 were made by the Corporation in the financial year ended December 31, 1994 covering the twelve month period from July 1, 1994 to June 30, 1995.

APPOINTMENT OF AUDITORS

Arthur Andersen & Co., Chartered Accountants, of 1177 West Hastings Street, Vancouver, British Columbia, will be nominated for appointment as auditors of the Corporation to hold office until the close of the next annual general meeting. Such auditors were appointed auditors of the Corporation at the first Annual Meeting on May 25, 1994 and were first appointed auditors of BC TEL on March 14, 1968.

Representatives of Arthur Andersen & Co. are expected to be present at the Meeting and may make any statement or answer any questions.

BC TELECOM INC. SHARE OPTION PLAN

On February 22, 1995, the Board of Directors approved, subject to shareholder and regulatory approvals, the BC TELECOM Inc. Share Option Plan (the "Plan"). The Plan will replace the Long-Term Incentive Share Option Plan ("LISOP"), which will be discontinued in regard to the granting of any further options after February 23, 1995. The following is a summary of the Plan which highlights the key features and provisions. A full copy of the Plan is available to any Shareholder by writing to the Corporate Secretary of the Corporation, 21st Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

Objectives of the Plan

The Human Resources and Compensation Committee (the "Committee") of the Board together with outside, independent compensation consultants formulated the Plan to accomplish the following objectives:

- Align the interests of key management employees and the directors with those of the shareholders;
- Encourage the key management employees to retain their shareholdings in the Corporation; and
- Provide compensation that is competitive with similar positions in the marketplace in order to attract and retain high quality, top performing executives.

Plan Eligibility, Limits and Conditions

Under the Plan, certain designated executive officers and other key employees (collectively "executives") and directors of the Corporation and its subsidiaries will be granted options to purchase Common

Shares. The maximum number of Common Shares of the Corporation that may be issued under the Plan is 2,000,000, representing 1.7% of the issued and outstanding Common Shares of the Corporation as at December 31, 1994. The Plan will be administered by the Committee which will determine the number of Common Shares subject to each option granted under the Plan and the terms of each option including the grant of share appreciation rights and retention options, subject to approval by the Board.

The exercise price of each option granted under the Plan will be the closing price of the Common Shares of the Corporation on The Toronto Stock Exchange on the day before the date of grant of the options.

The Plan provides that the Committee may determine the vesting or exercisability of any option granted, but if not otherwise determined, options will vest and be exercisable as to 33 1/3% on each anniversary date of the date of grant, so that 100% of any option will be exercisable on and after the third anniversary date of the grant date.

The Plan also provides that there may be granted with respect to any option, if determined, in tandem share appreciation rights ("SAR's") and/or retention options.

The SAR's would permit the optionee holding same, to receive the value of the appreciation in the stock option without exercising the option and taking possession of the Common Shares. Upon exercise of a SAR the optionee would be paid, in cash, the difference between the closing price of the Common Shares on The Toronto Stock Exchange on the date of exercise less the option price for each SAR exercised. The SAR's are granted in tandem with the options and may not be exercised unless the option to which they relate is exercisable. Any exercise of a SAR cancels the optionee's right to exercise the option related thereto and vice versa.

A retention option may be granted up to the number of Common Shares provided in the original option. A retention option provides the optionee with an additional option to acquire the same number of Common Shares acquired upon exercise of the initial option, provided that the optionee holds the initial shares acquired on the exercise of that initial option for at least three years. A retention option is exercisable at a price which is the closing price of the Corporation's Common Shares on The Toronto Stock Exchange on the date of exercise of the initial option. A retention option is exercisable on or after three years from the date of exercise of the initial option related thereto, provided the condition of holding of the initial shares has been met. If a SAR is exercised by an optionee, the right to exercise any retention option related thereto will cease.

All options, SAR's and retention options have a term of 10 years from the date of grant of the original option.

The Plan does not require any optionee to exercise any options granted, or to hold for investment stock received under the Plan, although the retention option is designed to encourage the holding of stock received under the Plan.

Options Held

There are now outstanding to employees options to purchase a total of 1,274,328 Common Shares under the LISOP. On February 22, 1995 the Board of Directors approved the granting of options under the Plan to purchase 195,000 Common Shares at \$24.25 per share, together with an equal number of SAR's and retention options. This grant was made subject to receipt of shareholders' approval and all regulatory approvals of the Plan.

Resolution

The Board considers the development and implementation of the Plan as an important factor for the Corporation in designing the compensation package for its executives. The Board considers it important to align the interests of its executives and directors with that of its shareholders and to encourage its executives

to become long-term shareholders of the Corporation. In addition the Plan permits the grant of options to directors, if determined by the Board to be appropriate, to achieve a similar alignment. The terms of the Plan permit flexibility in the granting and determination of the provisions of options and the Board is of the view that the Plan will prove effective for these purposes.

Pursuant to the terms of the Plan, the approval of the Plan by a majority of the votes cast at the Annual Meeting of Shareholders is required. Accordingly, shareholders will be asked to consider and, if thought fit, pass the following resolution:

“THAT the BC TELECOM Inc. Stock Option Plan of the Corporation approved by the Board of Directors on February 22, 1995 be and the same is hereby approved.”

THE BOARD OF DIRECTORS RECOMMEND THAT THE SHAREHOLDERS VOTE “FOR” THE APPROVAL OF THE BC TELECOM INC. SHARE OPTION PLAN.

AVAILABILITY OF DOCUMENTS

The Corporation will provide to any person or company, upon request to the secretary of the Corporation, one copy of any of the following documents:

- (a) the Corporation’s latest Annual Information Form, together with any document, or the pertinent pages of any document, incorporated therein by reference, filed with the applicable securities regulatory authorities;
- (b) the comparative financial statements of the Corporation filed with the applicable securities regulatory authorities for the Corporation’s most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon; Management’s Discussion and Analysis and any interim financial statements of the Corporation filed with the applicable securities regulatory authorities subsequent to the filing of the annual financial statements; and
- (c) the information circular of the Corporation filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Corporation which involved the election of directors.

Copies of the above documents will be provided, upon request to the secretary of the Corporation, free of charge to security holders of the Corporation. The Corporation may require the payment of a reasonable charge from any person or company who is not a security holder of the Corporation, who requests a copy of any such document.

The contents and sending of this proxy information circular were approved by the directors of the Corporation on February 22, 1995.

DOROTHY E. BYRNE
Corporate Secretary

SCHEDULE "A"

No. A950670
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF SECTION 144(I)
OF THE CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985 c. C-44 AS AMENDED**

**AND IN THE MATTER OF
THE ANNUAL GENERAL MEETING OF BC TELECOM INC.**

BRIAN A. CANFIELD

PETITIONER

ORDER

BEFORE MASTER)
DONALDSON) MONDAY, THE 6TH
) DAY OF MARCH, 1995

THIS PETITION coming on for hearing *ex parte* this day at Vancouver, British Columbia; AND UPON HEARING Barry T. Gibson, Esq., Counsel for the Petitioner; AND UPON READING the Petition herein, and the Affidavits of Brian A. Canfield and Elizabeth J. Harrison, Q.C., both sworn the 1st day of March, 1995 and filed herein;

THIS COURT ORDERS that:

- (a) the Annual General Meeting (the "Meeting") of BC TELECOM INC., to be held on Wednesday, the 26th day of April, 1995, be held concurrently by way of two-way audio-video communication at the Head Office of BC TELECOM Inc. at 3777 Kingsway, Burnaby, British Columbia; at Robson Square Conference Centre, 800 Robson Street, Vancouver, British Columbia; and at Sheraton Centre, 123 Queen Street West, Toronto, Ontario; at 10:00 a.m. (Vancouver Time) and 1:00 p.m. (Toronto Time);
- (b) If the said two-way audio-video communication should fail to operate, the Meeting shall continue with the aforesaid locations linked by audio communication; and
- (c) The Meeting be otherwise called and held in accordance with the By-Laws of BC TELECOM INC., the *Canada Business Corporations Act*, and securities laws applicable to BC TELECOM INC.

THIS COURT FURTHER ORDERS that the Petitioner be granted leave at any time to seek to vary this Order.

BY THE COURT

"Irene McLeod"
DEPUTY DISTRICT REGISTRAR

